PearlGlobal

ANNUAL REPORT | 2011-12

# Being Global is...

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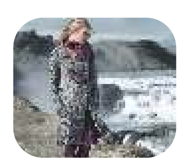


Pearl Global Industries Limited
(formerly House of Pearl Fashions Limited)

## Board of Directors

| | | |
|---|---|---|
| Mr. Deepak Seth | - | Chairman |
| Mr. Pallak Seth | - | Vice-Chairman |
| Mr. Pulkit Seth | - | Managing Director |
| Mrs. Shefali Seth | - | Whole-Time Director |
| Mr. Vinod Vaish | - | Whole-Time Director |
| Dr. Ashutosh P. Bhupatkar | - | Non-executive Independent Director |
| Mr. S. B. Mohapatra | - | Non-executive Independent Director |
| Mr. Chittranjan Dua | - | Non-executive Independent Director |
| Mr. Rajendra K. Aneja | - | Non-executive Independent Director |
| Mr. Anil Nayar | - | Non-executive Independent Director |

## Company Secretary

Mr. Sandeep Sabharwal

## Audit Committee

| | | |
|---|---|---|
| Dr. Ashutosh P. Bhupatkar | - | Chairman |
| Mr. S. B. Mohapatra | - | Member Director |
| Mr. Anil Nayar | - | Member Director |

## Remuneration Committee

| | | |
|---|---|---|
| Mr. S. B. Mohapatra | - | Chairman |
| Mr. Rajendra K. Aneja | - | Member Director |
| Dr. Ashutosh P. Bhupatkar | - | Member Director |

## Shareholders Grievance & Transfer Committee

| | | |
|---|---|---|
| Dr. Ashutosh P. Bhupatkar | - | Chairman |
| Mr. Pulkit Seth | - | Member Director |
| Mr. S. B. Mohapatra | - | Member Director |

## Finance Committee

| | | |
|---|---|---|
| Mr. S. B. Mohapatra | - | Chairman |
| Mr. Pulkit Seth | - | Member Director |
| Dr. Ashutosh P. Bhupatkar | - | Member Director |

## Auditors

M/s S. R. Dinodia & Co.
Chartered Accountants
K-39, Cannaught Place
New Delhi -110001

## Bankers:

Punjab National Bank
Standard Chartered Bank
UCO Bank
Axis Bank
Bank of Baroda
Intesa Sanpaolo S.p.A.
Royal Bank of Scotland

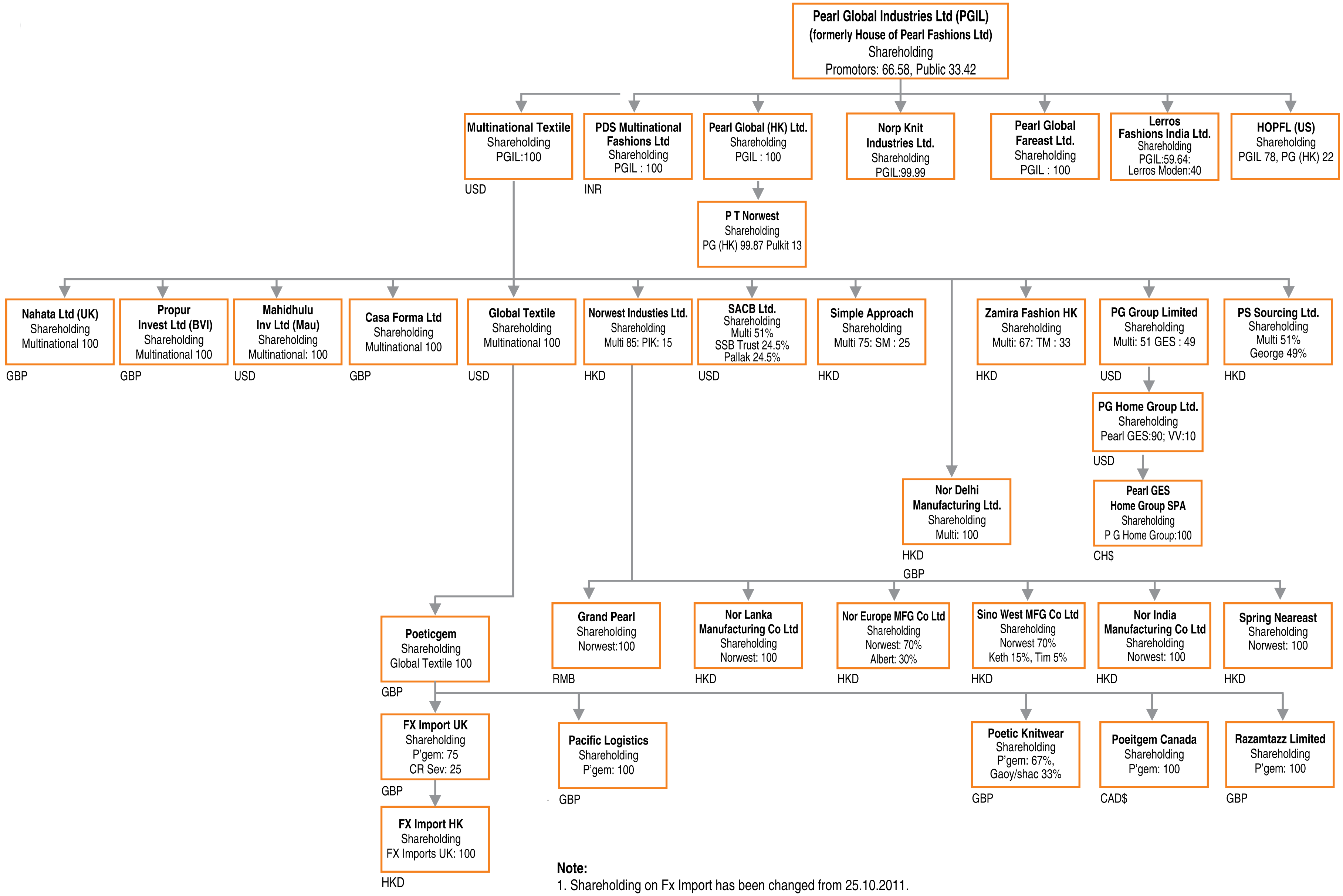
## Registered Office:

"Pearl House"
A-3, Community Centre,
Naraina Industrial Area, Phase-II,
New Delhi -110028

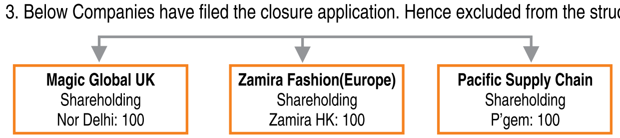
## Corporate Office:

446, Udyog Vihar, Phase- V,
Gurgaon-122016 (Haryana)

## Group Structure:




**Note:**
1. Shareholding on Fx Import has been changed from 25.10.2011.
2. Shareholding of Poetic Knitwear has been changed from 12.12.2011
3. Below Companies have filed the closure application. Hence excluded from the structure



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# NOTICE

Notice is hereby given that the 23rd Annual General Meeting of the Members of the Pearl Global Industries Limited (Formerly House of Pearl Fashions Limited), will be held on Wednesday, 19th September, 2012 at 11:00 A. M. at Shri Sathya Sai International Centre, Pragati Vihar (Near Pragati Vihar Hostel), Lodhi Road, New Delhi-110 003, to transact the following businesses:

**ORDINARY BUSINESS**

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2012 and the Profit & Loss Account of the Company for the year ended on that date together with the Reports of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Deepak Seth, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Pulkit Seth, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Chittranjan Dua, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. Rajendra K Aneja, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint M/s S. R. Dinodia & Co., Chartered Accountants, (Regn. No. 001478N), New Delhi, the retiring Auditors of the Company, as the Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

**SPECIAL BUSINESS**

7. To consider and if thought fit, to pass with or without modification(s) the following resolution as an ordinary resolution:

   **"RESOLVED THAT** Mr. Anil Nayar, who was appointed by the Board as an additional Director with effect from 19th January, 2012 and who holds office upto the date of this Annual General Meeting and is eligible for appointment as Director and in respect of whom the company has received a notice in writing from a member pursuant to section 257 of the Companies Act, 1956, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

8. To consider and if thought fit, to pass with or without modification(s) the following resolution as an ordinary resolution:

   **"RESOLVED THAT** Mrs. Shefali Seth, who was appointed by the Board as an additional Director with effect from 19th January, 2012 and who holds office upto the date of this Annual General Meeting and is eligible for appointment as Director and in respect of whom the company has received a notice in writing from a member pursuant to section 257 of the Companies Act, 1956, proposing her candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

9. To consider and if thought fit, to pass with or without modification(s) the following resolution as an ordinary resolution:

   **"RESOLVED THAT** Mr. Vinod Vaish, who was appointed by the Board as an additional Director with effect from 19th January, 2012 and who holds office upto the date of this Annual General Meeting and is eligible for appointment as Director and in respect of whom the company has received a notice in writing from a member pursuant to section 257 of the Companies Act, 1956, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

10. To consider and if thought fit, to pass with or without modification(s) the following resolution as a special resolution:

    **"RESOLVED THAT** pursuant to the provisions of Sections 198, 269, 308, 309 and 310 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, and subject to approval of Central Government, if required, consent of the company be and is hereby accorded to the appointment of Mrs. Shefali Seth as Whole-time Director of the Company for a period of three years commencing from 19th January, 2012 to 18th January, 2015.

    RESOLVED FURTHER THAT the Company approves the following remuneration of Mrs. Shefali Seth:

    | | | |
    |---|---|---|
    | Salary | : | Rs.4.00 Lacs per month. |
    | Car | : | A Company maintained car for official purpose. |
    | Mobile/Telephone | : | A mobile for official purpose. |
    | Provident Fund & Gratuity | : | As per Company's rules. |

    RESOLVED FURTHER THAT Mrs. Shefali Seth, Whole-time Director shall be responsible for affairs of the Company with special focus on Design and Development of Products of the Company and also perform such other duties and services as shall from time to time be entrusted to her by the Board of Directors of the Company.

    RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to do all such acts and deeds as may be necessary to give effect to this Resolution.

11. To consider and if thought fit, to pass with or without modification(s) the following resolution as a special resolution:

    **"RESOLVED THAT** pursuant to the provisions of Sections 198, 269, 308, 309 and 310 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956, and subject to approval of Central Government, if required, consent of the company be and is hereby accorded to the appointment of Mr. Vinod Vaish as Whole-time Director of the Company for a period of three years commencing from 19th January, 2012 to 18th January, 2015.

    RESOLVED FURTHER THAT the Company approves the following remuneration of Mr. Vinod Vaish:

    | | | |
    |---|---|---|
    | Basic Salary | : | 56,960/- per month |
    | HRA | : | 28,480/- per month |
    | Spl. Allowance | : | 14,530/- per month |
    | Medical Reimbursement | : | 15,000/- per annum |
    | Mobile/Telephone | : | A mobile for official purpose |
    | Provident Fund | : | As per Company's rules |

    He shall also be entitled for reimbursement of actual expenses for business of the Company.

    RESOLVED FURTHER THAT Mr. Vinod Vaish, Whole-time Director shall be responsible for affairs of the Company with special focus on HR & Administration functions of the Company and also perform such other duties and services as shall from time to time be entrusted to him by the Board of Directors of the Company.

    RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to do all such acts and deeds as may be necessary to give effect to this Resolution.

By order of the Board of Directors

for **PEARL GLOBAL INDUSTRIES LIMITED**

Sd/-

Place: Gurgaon. **(Sandeep Sabharwal)**

Date: 29th May, 2012 **Company Secretary**

**Notes:**

1. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY FORM DULY COMPLETED MUST REACH THE COMPANY'S REGISTERED OFFICE ATLEAST 48 HOURS BEFORE THE TIME OF THE MEETING.**
2. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, the 12th September, 2012 to Wednesday, the 19th September 2012 (both days inclusive).
3. The relevant Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956 and Clause 49 of the Listing Agreement in respect of re-appointment(s) of Directors are mentioned below.
4. Members/Proxies are requested to bring their copy of Annual Report to the Meeting and **are requested not to bring any article, briefcase, hand bag, carry bag etc., as the same will not be allowed to be taken inside for security reasons.** Further, the Company or any of its officials shall not be responsible for their articles, bags etc., being misplaced, stolen or damaged at the Meeting place.
5. Members/Proxies should fill the attendance slip for attending the meeting. Members who hold shares in dematerialized form are requested to write their Client ID and DP ID numbers and those hold shares in Physical forms are requested to write their Folio Number in the attendance slip for attending the meeting.
6. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
7. Corporate members intending to send their authorised representative are requested to send a duly certified copy of the Board resolution authorizing their representatives to attend and vote at the Annual General Meeting.
8. Pursuant to Section 205A of the Companies Act, 1956, dividends for the financial year ended 31st March, 1996 and thereafter, which remain unpaid or unclaimed/un-encashed for a period of 7 years will be accordingly transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government.

Information in respect of such unclaimed dividend including when due for transfer to the said Fund is given below:

| Financial year ended | Rate of Dividend Declared on the paid-up equity share capital | Date of declaration of Dividend | Last date for claiming unpaid Dividend | Due date for transfer to IEP Fund |
|---|---|---|---|---|
| 31.03.2006 | 30% # | 30.11.2006 | 28.12.2013 | 26.01.2014 |
| 31.03.2007 | 20% # | 27.08.2007 | 24.09.2014 | 23.10.2014 |
| 31.03.2008 | 15% | 29.08.2008 | 27.09.2015 | 26.10.2015 |

# Dividend of erstwhile Pearl Global Ltd since merged with the Company.

Members who have not encashed the dividend warrant(s) so far, are requested to make their claim to the Company or to the Registrar and Share Transfer Agent of the Company at Link Intime India Pvt. Limited, A-40, 2nd Floor, Naraina Industrial Area, Phase - I, New Delhi-110028.

9. Members are requested to send their queries, if any, on the accounts and operations of the Company to the Compliance Officer (email address is sandeep.sabharwal@houseofpearl.com) at least 7 days before the Annual General Meeting.

10. **NO GIFT(S) SHALL BE DISTRIBUTED AT THE ENSUING 23RD ANNUAL GENERAL MEETING OF YOUR COMPANY.**

**EXPLANATORY STATEMENT**

(Pursuant to Section 173 (2) of the Companies Act, 1956 and Clause 49 of the Listing Agreement)

A brief Resume of the Director(s) offering themselves for re-election is given below:

**Item No. 2**

Mr. Deepak Seth, born on 22nd May 1951, is Chairman of the Company. He is an Economics Graduate from St. Stephens College, Delhi University and holds a MBA Degree from Jamanalal Bajaj Institute of Management Studies, Bombay, India.

Mr. Deepak Seth is one of the pioneers in the field of ready made garments and being a visionary, identified the potential of the Far East region as a major supplier to the garment industry worldwide and set up the Company as a global outfit. With his vision, Mr. Seth enabled the group to be fully geared to face the post quota regime from 2005 with major trust in setting up manufacturing units across the entire Far East to present every option to the buyer and make the group a **ONE STOP SHOP** for their valued customers.

Mr. Seth is an active member of the Apparel Export Promotion Council of India and held the post of "Vice Chairman" of the Eastern Region of AEPC for 2 years, he is also executive member of the Apparel Exporters & Manufacturers Association (AEMA) and was awarded the "Udyog Ratna" Award by the Haryana Govt. in 2006 for his entrepreneurial skills.

Details of other directorship/committee membership held by him in other Companies are as follows:

Directorship

Pearl Apparels Limited, PDS Multinational Fashions Limited, Aries Travels Pvt. Ltd, Nim International Commerce Pvt. Ltd, PS Arts Pvt. Ltd., Pearl Retail Solutions Pvt. Limited, Pallas Holdings Ltd., SACB Holdings Ltd., Transnational Textile Group Ltd., NAFS Ltd., Multinational Textiles Group Ltd, Global Textile Group Ltd, Poeticgem (Canada) Ltd, House of Pearl Fashions (US) Ltd., FX Import Company Limited, FX Imports Hongkong Limited, Nor Lanka Manufacturing Limited, PG Group Limited, PG Home Group Limited, Spring Near East Manufacturing Co. Ltd. Nor India Manufacturing Co. Ltd., Pearl Global (HK) Limited, JSM Trading (F.Z.E.), UAE, Pearl Global Fareast Limited, Zamira Fashion Limited, Premier Pearl Garment Joint Stock Co. Limited, Vietnam.

He is not a member of any committee of the Company.

No remuneration except sitting fee for attending each meeting of the Board of Directors is proposed to be paid to Mr. Deepak Seth. Mr. Seth holds 7.13% equity shares in the Company.

Mr. Seth, the retiring Director, being eligible, offers himself for re-appointment.

Directors of your Company propose to appoint Mr. Deepak Seth as a Director, liable to retire by rotation and therefore this Resolution is recommended for approval of the Shareholders of the Company.

None of the Directors, except Mr. Deepak Seth, himself and Mr. Pulkit Seth and Mr. Pallak Seth and Mrs. Shefali Seth, being relatives, are interested, whether directly or indirectly, in this Resolution.

**Item No. 3**

Mr. Pulkit Seth, aged 32 years a resident Indian, is Managing Director of the Company. He has a Bachelor of Business Management degree from Leonard N. Stern School of Business, University of New York, USA. He has over Eight years of experience in the Apparel Industry. He has been overseeing the domestic & overseas operations of the Group and has played an important role in streamlining business processes and enhancing our relationship with leading retailers in the U.S. He was also the Joint Managing Director of Norwest Industries Limited (Hong Kong) and Details of other Directorship/Committee Membership held by him in other Companies are as follows:

Directorship

Mr. Pulkit Seth is Director of Pearl Retail Solutions Pvt. Ltd., Aries Travels Pvt. Ltd, Nim International Commerce Pvt. Ltd, Lerros Fashions India Ltd, Pallas Holdings Ltd., SACB Holdings Ltd., Transnational Textile Group Ltd., NAFS Ltd., PAF International Ltd., Norp Knit Industries Ltd., Norwest Industries Ltd., PT Norwest Industry, Poeticgem (Canada) Ltd, House of Pearl Fashions (US) Ltd., FX Import Company Limited, Lerros Moden GmbH, Pearl Global Fareast Limited, PS Arts Pvt.Ltd. Premier Pearl Garment Joint Stock Company Ltd, Nor India Manufacturing Co. Ltd, Pearl Global (HK) Ltd

Committee Membership

i) Shareholder Grievance and Transfer Committee –

ii) Finance Committee

Mr. Pulkit Seth, the retiring Director, being eligible, offers himself for re-appointment.

Directors of your Company propose to appoint Mr. Pulkit Seth as a Director, liable to retire by rotation and therefore this Resolution is recommended for approval of the Shareholders of the Company.

None of the Directors, except Mr. Pulkit Seth, himself and Mr. Deepak Seth, Mr. Pallak Seth and Mrs. Shefali Seth being relatives, are interested, whether directly or indirectly, in this Resolution.

**Item No. 4**

Mr. Chittranjan Dua, born on 3rd November 1951, has a Bachelor Degree in Arts from Delhi University, Masters Degree in Economics from Delhi School of Economics and Bachelors Degree in Law from Delhi University. He has been a practicing advocate for over 32 years. Mr. Chittranjan Dua has vast experience in Corporate Laws, Merger & Amalgamation, Public Issues, Corporate Structuring, infrastructure projects, International trade & taxation.

Details of other directorship/committee membership held by him in other Companies are as follows:

Directorship

(i) Cabot India Ltd (ii) Gillette India Ltd (iii) Vodafone India Limited (iv) TVS Motor Company Limited (v) Wimco Limited (vi) Tractors and Farm Equipment Limited (vii) Alcoa India Private Ltd (viii) Amit Investments Pvt Ltd (ix) Associated Corporate Consultants (India) Pvt. Ltd (x) Becton Dickinson India Pvt.Ltd (xi) Emerson Process Management Power & Water Solutions India Pvt. Limited (xii) Fila Sport India Pvt. Ltd (xiii) Inapex Pvt. Ltd (xiv) Lex Sphere Pvt. Ltd (xv) Linde Engineering India Pvt. Ltd (xvi) McCann-Erickson (India) Pvt. Ltd (xvii) McDonald's India Pvt. Ltd (xviii) Result Services Pvt. Ltd (xix) Sella Synergy India Private Limited (xx) UL India Pvt. Ltd. (xxi) PBE India Private Limited.

He is not a member of any committee of the Company.

No remuneration except sitting fee for attending each meeting of the Board of Directors is proposed to be paid to Mr. Chittranjan Dua. Mr. Dua does not hold any share in the company.

Mr. Chittranjan Dua, the retiring Director, being eligible, offers himself for re-appointment.

Directors of your Company propose to appoint Mr. Chittranjan Dua as a Director, liable to retire by rotation and therefore this Resolution is recommended for approval of the Shareholders of the Company.

None of the Directors, except Mr. Chittranjan Dua is interested, whether directly or indirectly, in this Resolution.

**Item No. 5**

Mr. Rajendra K Aneja, born on 9th December, 1949, has a Bachelor Degree in Commerce (1971) from Bombay University and Master of Management Studies (1973). He has done Advanced Management Programme at Harvard Business School for CEOs' and Directors, in 2008. Mr. Aneja was a Sir Dorabji Tata Special Scholar and Government Merit Scholar.

Mr. Rajendra K Aneja has 32 years robust business management experience in Multinational and family businesses, in Asia, Latin America, Middle East, across international businesses/brands i.e. FMCG, Industrial, Retail, Consumer, etc., covering detergents, foods, soaps, cosmetics, retailing in fashion, electronics, foods, etc. He spent 28 years with Unilever in India, Latin America and African operations. He has also been the CEO of a large Retail Business in Middle East handling about 75 large retail outlets in fashion, cosmetics, electronics goods, in the Middle East, Far East countries.

Details of other directorship/committee membership held by him in other Companies are as follows:

Directorship

(i) Aneja Management Consultants Pvt. Ltd. (ii) Aneja Assurance Pvt. Ltd. (iii) Aneja Advisory Pvt. Ltd.

Committee Membership

Pearl Global Industries Limited – Remuneration Committee

No remuneration except sitting fee for attending each meeting of the Board of Directors is proposed to be paid to Mr. Rajendra K Aneja. Mr. Aneja does not hold any share in the company.

Mr. Rajendra K Aneja, the retiring Director, being eligible, offers himself for re-appointment.

Directors of your Company propose to appoint Mr. Rajendra K Aneja as a Director, liable to retire by rotation and therefore this Resolution is recommended for approval of the Shareholders of the Company.

None of the Directors, except Mr. Rajendra K Aneja is interested, whether directly or indirectly, in this Resolution.

**Item No.7**

**MR. ANIL NAYAR**

Mr. Anil Nayar aged about 62 years, holds a B. Tech. Degree in Mechanical Engineering from Indian Institute of Technology, Kanpur and Post Graduate Diploma in Business Administration from Indian Institute of Management, Ahmedabad. He joined the Board of Directors of Erstwhile Pearl Global Ltd. subsidiary of your Company in the year 1994. He is a Non - Executive and Independent Director of your Company. He has over 33 years' experience in the area of Corporate Strategy, Corporate Restructurings, Structured Finance, and HR Initiatives.

He is not a director in any other Company.

He is a member of Audit Committee of the Company.

The Board recommends re-appointment of Mr. Anil Nayar, as a Director, liable to retire by rotation.

Except Mr. Anil Nayar, no other Director is interested, whether directly or indirectly, in this Resolution.

**Item No. 8, 9,10 & 11**

**MRS. SHEFALI SETH**

Mrs. Shefali Seth aged about 31 years, a Bachelor of Science in Business Administration from University of Bradford, U. K., has varied exposure in Garments and Textiles Industry. Before joining Pearl Global Industries Limited, she was Whole Time Director in Pearl Global Limited, heading Design & Product Development functions. Prior to that, she was managing Product Development Department of M/s Norwest Industries Limited, Hong Kong. She is having International experience in trading, marketing of Readymade Garments and knowledge of Southeast Asia region for over two years. She is wife of Mr. Pulkit Seth, Managing Director of your Company.

The Board has appointed Mrs. Seth as Additional Director and Whole-time Director of the Company.

In terms of Article 81 of the Articles of Association of your Company read with Section 260 of the Companies Act, 1956, Mrs. Shefali Seth ceases to hold the office of Additional Director at the ensuing 23rd Annual General Meeting of your Company.

The Company has received a Notice under Section 257 of the Companies Act, 1956, for her appointment.

**MR. VINOD VAISH**

Mr. Vinod Vaish, aged 53 years, is a Bachelor of Science and Long Logistics & Management. He had been in the Indian Navy for 28 years at various levels in various capacities and has achieved in depth knowledge of all aspects of Administration and Logistics Management. He has been conferred President Gold Medal for overall outstanding best officer in Naval Academy. He has over 4 years experience in private sector, specifically in Administration and production. He joined Pearl Global Limited in 2009 as Head of Administration and Purchase. He will be heading Administration and HR functions of the Company besides such other managerial functions as may be entrusted upon him by the Board.

The Board has appointed Mr. Vinod Vaish as Additional Director and Whole-time Director of the Company.

In terms of Article 81 of the Articles of Association of your Company read with Section 260 of the Companies Act, 1956, Mr. Vinod Vaish ceases to hold the office of Additional Director at the ensuing 23rd Annual General Meeting of your Company.

The Company has received a Notice under Section 257 of the Companies Act, 1956, for his appointment.

**THE STATEMENT PURSUANT TO PARAGRAPH 1(B) OF SECTION II OF PART II OF SCHEDULE XIII OF THE COMPANIES ACT, 1956 FOR ITEM NO. 8, 9, 10 & 11**

**I. GENERAL INFORMATION:**

1. NATURE OF INDUSTRY

   Pearl Global Industries Limited is engaged in manufacture and exports of Readymade Garments. Textile Industries plays a major role in the economy of the country. Indian textile industry is the largest in the country in terms of employment generation. Indian textile industry currently generates employment to more than 35 million people. Today, around 45% of the total textile exports in India account for ready-made garments. There are various international brands which source readymade garments from the Indian markets.

   The Company has large capacity plants for apparel manufacturing with state-of-the-art machinery and work process for supplying high quality products to Customers and with the continuous up-gradation of manufacturing facilities, the Company shall record further increase in Turnover and Profits in future years.

2. DATE OF COMMENCEMENT OF COMMERCIAL PRODUCTION

   The date of commencement of commercial production (in erstwhile Pearl Global Limited, since merged with the Company) was 7th December,1988..

   IN CASE OF NEW COMPANIES, EXPECTED DATE OF COMMENCEMENT OF ACTIVITIES AS PER PROJECT APPROVED BY FINANCIAL INSTITUTIONS APPEARING IN THE PROSPECTUS

   Not Applicable

3. FINANCIAL PERFORMANCE BASED ON GIVEN INDICATORS

   The gross income of the company stood at Rs 637.78 Crores. The PBIDT for the year is Rs 26.08 Crores against Rs.3.72 Crores last year. The company managed to have PAT of Rs.3.66 Crores.

4. EXPORT PERFORMANCE AND NET FOREIGN EXCHANGE COLLABORATIONS

   The Readymade Garment saw exit of Multi Fibre Agreement regime to a new regime of quota free regime, this has resulted in a changing scenario in the Indian Readymade Garment Industry, which is to going through a changing face in which the Industry will have to improve upon its bottom line and upgrade its technology in line with the International norms.

   The FOB value of Export earnings of Rs.608.89 Crores (post merger) during the current financial year 2011-12, and Rs. 21.50 Crores in the last year.

5. FOREIGN INVESTMENTS OR COLLABORATORS, IF ANY

   The Company has no foreign collaboration.

   Apart from holding 3,59,421 equity shares of Rs.10/- each of your Company by 142 NRI / OCB's Members/ Folios representing 1.66 % of the total paid up Capital of the Company as on 31st March 2012, there is no other foreign investment in the Company

**II. INFORMATION ABOUT THE APPOINTEE:**

| Information | Mrs. Shefali Seth | Mr. Vinod Vaish |
|---|---|---|
| Background Details | Mrs. Shefali Seth aged about 31 years and is a Bachelor of Science in Business Administration from University of Bradford, U. K. and having varied exposure in Garments and Textiles Industry. Before joining Pearl Global Industries Limited, She was Whole Time Director of Pearl Global Limited, heading Design & Development Functions. Prior to that, she was managing Product Development Department of Norwest Industries Limited, Hong Kong. She is having International experience in trading, marketing of Readymade Garments and knowledge of Southeast Asia region. | Mr. Vinod Vaish, aged 53 years, is a Bachelor of Science and Long Logistics & Management. He had been in the Indian Navy for 28 years at various levels in various capacities and has achieved in depth knowledge of all aspects of Administration and Logistics Management. He has over 4 years experience in private sector, specifically in Administration and production. He joined Pearl Global Limited in 2009 as Head of Administration and Purchase. He will be heading Administration and HR functions of the Company besides such other managerial functions as may be entrusted upon him by the Board. |
| Past Remuneration | Rs. 4 Lacs p.m. ( Pearl Global Limited) | Rs. 84,220 p.m. (Pearl Global Ltd) |
| Recognition or Awards | Nil | Nil |
| Job Profile and their Suitability | Mrs. Shefali Seth, shall be responsible for affairs of the Company with special focus on Design and Development of Products of the Company and also perform such other duties and services as shall from time to time be entrusted to her by the Board of Directors of the Company. Considering the contribution, Board considered her suitable for this position. | Mr. Vinod Vaish shall be responsible for affairs of the Company with special focus on HR & Administration functions of the Company and also perform such other duties and services as shall from time to time be entrusted to him by the Board of Directors of the Company. Considering the contribution, Board considered him suitable for this position. |

| | | | |
|---|---|---|---|
| Remuneration Proposed | Salary: Rs.4.00 Lacs per month.<br>Car: A Company maintained car for official purpose.<br>Mobile/ Telephone: A mobile for official purpose.<br>Provident Fund & Gratuity: As per Company's rules. | | Basic Salary 56,960/- per month<br>HRA : 28,480/- per month<br>Spl. Allowance : 14,530/- per month<br>Medical Reimbursement : 15,000/- per annum<br>Mobile/Telephone : A mobile for official purpose<br>Provident Fund : As per Company's rules<br>He shall also be entitled for reimbursement of actual expenses for business of the Company |
| Comparative Remuneration profile with respect to industry, size of the company profile of position and person | Arvind Limited<br>Period: 2010-11<br>Turnover: Rs.2,691Crore<br>Managerial Personnel: 2<br>Annual Managerial Remuneration: Rs. 4.66 Crore | Gokaldas Exports Ltd<br>Period: 2010-11<br>Turnover: Rs.1081 Crore<br>Managerial Personnel: 3<br>Annual Managerial Remuneration: Rs.134 Lacs | Bombay Rayon Fashions Ltd<br>Period:- 2010-11<br>Turnover: Rs.2,254 Crore<br>Managerial Personnel: 4<br>Annual Managerial Remuneration: Rs 523.25 Lacs |
| Pecuniary relationship directly or indirectly with the company or with the managerial personnel, if any | Relating to Pecuniary Relationship, information provided under Past and proposed Remuneration hereinabove. Mrs. Shefali Seth is related to Mr. Deepak Seth, Mr. Pallak Seth and Mr. Pulkit Seth. | | Pecuniary Relationship other than Remuneration proposed above, is NIL. No relationship with Managerial Personnel. |

**III. OTHER INFORMATION:**

1. REASONS OF LOSS OR INADEQUATE PROFITS

The Readymade Garments Export Industry had yet another tough year where Revenues have grown but profitability was impaired due to higher cost of production coupled with pressure on margins due to recession.

2. STEPS TAKEN OR PROPOSED TO BE UNDERTAKEN FOR IMPROVEMENTS

Your Company realises that the Buyers can only be attracted through a proper blend of cost, speed / logistics, plant efficiency, supply chain, compliance, reliability and relationship.

The Company is laying special focus on technological up-gradation, lesser breakdown time, use labour saving devices, training of managers, supervisors and operators. Besides, the Company is also outsourcing manufacturing from low cost destinations.

Maintaining quality, reducing cost with better productivity will help the Company to operate profitably.

3. EXPECTED INCREASE IN PRODUCTIVITY AND PROFITS IN MEASURABLE TERMS

The Sales Turnover of your Company during the year 2011-12 was Rs.613.13 Crores. The Company 's PAT stood at Rs.3.66 Crores during 2011-12.

Your Company has since identified and prioritized its targets and has been gearing up to face the perceived challenges and further enhance its presence in the International Markets. Barring under seen circumstances, your company profitability during 2012-13 should increase by 15% and productivity by 10%.

**IV. DISCLOSURES:**

**Remuneration package of the Managerial Person(s) paid for the year 2011-12:** (Amount in Rs.)

| Name of the Director(s) | Mr. Pulkit Seth | Mrs. Shefali Seth | Mr. Vinod Vaish | All other Directors |
|---|---|---|---|---|
| Designation | Managing Director | Whole Time Director | Whole Time Director | – |
| Salary | 48,00,000 | 9,67,742 | 2,44,886 | – |
| Others ( Provident Fund ) | 9,360 | 1,887 | 1,887 | – |
| Service Contract | 3 years | 3 years | 3 years | – |
| Notice Period, Severance fees | Nil | Nil | – | Nil |
| Sitting Fees | Nil | Nil | Nil | *Rs. 20,000/- for attending each Board Meeting |
| **Total** | **48,09,360** | **9,69,629** | **2,46,773** | **–** |

* Sitting fee has been revised by Rs. 7,500/- for attending each Board Meeting w.e.f. 12th November, 2011.

The Company has no policy for stock option, pension, and performance linked incentives. The company is not paying any bonus, commission or other benefits except as above, to the Executive Directors. The details of Directors remuneration are also disclosed in Corporate Governance Report.

Keeping in view, Mrs. Shefali Seth's vast experience and long association with your Company, it will be in the interest of your Company to appoint her as Director and Whole Time Director on the Board of your Company. Your Directors recommend the passing of the resolutions by way of Ordinary and Special Resolution at item no. 8 & 10, respectively. None of the Directors, except Mrs. Shefali Seth, herself, Mr. Deepak Seth, Mr. Pallak Seth and Mr. Pulkit Seth, being relatives, are interested, whether directly or indirectly, in these resolutions.

Keeping in view, Mr. Viond Vaish's vast experience, performance and long association with your group, your directors recommend passing of the resolutions by way of Ordinary and special resolution as per item no. 9 & 11, respectively.

The above said terms and conditions of appointment and remuneration are duly considered, approved and recommended by the Remuneration Committee in their Committee Meeting held on 19th January 2012 for Mrs. Shefali Seth and for Mr. Vinod Vaish.

The above Statement is in addition to the Abstract of Appointment under Section 302 of the Companies Act, 1956.

Copies of the resolutions passed by the Board in respect of the above may be inspected at the Corporate Office of your Company between 11:00 a.m. and 1:00 p.m. on all working days except Saturday and holidays.

The Directors commend the resolution for your approval as an Ordinary Resolution.

None of the Director of your company is any way concerned or interested in this resolution.

By order of the Board of Directors
for **PEARL GLOBAL INDUSTRIES LIMITED**

Sd/-

**(Sandeep Sabharwal)**
**Company Secretary**

Place: Gurgaon
Date: 29th May,2012

## DIRECTORS' REPORT

To the Shareholders,

The Directors of your Company have pleasure in presenting the 23rd Annual Report and Audited Accounts for the year ended 31st March 2012, together with the Auditors' Report thereon.

### MERGER OF PEARL GLOBAL LIMITED

Pearl Global Limited (PGL), the Indian subsidiary of the company has been merged with the Company, pursuant to Scheme of Amalgamation, vide order of Hon'ble High Court of Delhi dated 11.11.2011.

### CHANGE OF NAME

Pearl Global Limited had a global recognition and reputation with brand "Pearl Global" and was well known global garment manufacturer and ONE STOP SHOP for reputed international buyers.

Consequent upon merger of erstwhile Pearl Global Limited, with a view to retain the name – PEARL GLOBAL – of erstwhile PGL, name of the company has been changed from House of Pearl Fashions Limited to Pearl Global Industries Limited (PGIL) with effect from 20th March, 2012.

### CONSOLIDATED WORKING RESULTS

During the year under review, the consolidated Income of your Company is Rs. 2798.49 Crores against previous year Rs. 2251.03 Crores.

Rs. In Crores)

| | 2011-12 | 2010-11 |
|---|---|---|
| Income | **2798.49** | 2251.03 |
| Other Income | **15.45** | 49.31 |
| Profit before Tax | **46.67** | 21.66 |
| Provision for Tax | **8.12** | (1.21) |
| Provision for Bad debt | **–** | – |
| Profit After Tax | **38.55** | 22.87 |
| EPS (in Rs.) | **14.54** | 10.03 |
| Transfer to General Reserves | **–** | – |

### WORKING RESULTS OF THE COMPANY (STANDALONE)

(Rs. In Crores)

| | 2011-12 | 2010-11 |
|---|---|---|
| Income | **613.12** | 22.55 |
| Other Income | **24.66** | 0.04 |
| Profit before Tax | **1.95** | (0.31) |
| Provision for Tax | **(1.71)** | (5.78) |
| Profit After Tax | **3.66** | (23.81) |
| Transfer to General Reserves | **–** | – |

### BUSINESS AND OPERATIONS

Though struggling garment export sector witnessed dampening exports during most of 2011 due to sluggish EU and US market, yet with some late recovery, the apparel exports have registered some growth during 2011-12 with exports closing to USD 13.50 billion against USD 11 billion last year. Rupee appreciation in recent time is also a concern.

Indian exporters have reached other parts of the globe as well, though major market remains EU and US. Across the globe, the demand for garments has witnessed some increase.

Your company has adopted market diversification strategy based on the changing dynamics of growth in the world economy as it is necessary to ensure sustained growth of exports. The demand in the traditional markets of the developed western world, North America and Europe, is projected to be relatively sluggish due to slowing output expansion in these economies. Against this, emerging economies are expected to grow at about 6.5%.

The core of our market strategy therefore is:

(a) Retain presence and market share in our "existing developed country markets";

(b) Move up the value chain in providing products in these developed country markets; and

(c) Open up new vistas, both in terms of markets and new products in the new markets.

We are focusing on markets in Asia (including ASEAN), Africa and Latin America. We must establish new beachheads and strengthen our presence in newly opened up markets. To establish greater credibility and acceptance of our critical export products and sectors in foreign markets, we would strengthen efforts to build up a brand image for important Indian exports, and promote a thrust for quality upgradation. Domestic standards for export related products would be raised, Differentiated strategic initiatives globally have been formulated on the basis of the critical assessment of strengths, weaknesses, opportunities and challenges being faced.

The company has continued focus on cost competitiveness and open new horizons towards Sourcing and Product Development across the globe. The company has leveraged its experience and expertise in cost competitiveness in channelising the business through its manufacturing or outsourcing activities based on buyers requirements.

Consolidated turnover of the company is Rs.2798.49 Crores, up by more than 24% in financial year 2011-12. The consolidated profit of the company is Rs.38.54 Crores compared to profit of Rs.22.87 Crores for last year. With no expected increase in fixed overheads, your company expects that the new business initiatives will start yielding increase in sales and improved consolidated profit.

### CORPORATE SOCIAL RESPONSIBILITY

The company has been taking up and fulfilling its fundamental responsibility towards society. Little People Educational Society, set up by the group has been imparting employment oriented higher education and retail sector education through Indian Retail School (IRS). IRS has taken initiative to impart career oriented training in retail sector. ARPAN and SOHAM are helping underprivileged children, studying in 1st to 5th level financially and also supporting the school system.

The company is formulating a formal Corporate Social Responsibilities (CSR) Policy keeping in tune with its overall business policy and goals.

### DIVIDEND

The Directors do not recommend any dividend for the year under review.

### DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of your Company, Mr. Deepak Seth, Chairman, Mr. Pulkit Seth, Managing Director, Mr. R. K. Aneja and Mr. C R. Dua, Directors would retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Necessary resolutions for their appointment are included in the notice convening Annual General Meeting.

Mrs. Shefali Seth was a Whole Time Director in erstwhile Pearl Global Limited, heading Product Development and Design functions. The Board has appointed Mrs. Shefali Seth as an Additional Director and Whole Time Director of the Company to avail her expertise for Product Development and Design functions. The Board has also appointed Mr. Vinod Vaish as Additional Director and Whole Time Director to avail his services in Corporate and Factory administration.

The Board has also appointed Mr. Anil Nayar as Additional Director – being an independent Director on the Board. Mr. Nayar was also an independent Director on the Board of erstwhile Pearl Global Limited.

The aforesaid additional Directors are liable to retire at the ensuing Annual General Meeting. The company has received notices from shareholders proposing the reappointment of Additional Directors.

### DIRECTORS' IDENTIFICATION NUMBER (DIN)

The following are the Directors Identification Number (DIN) of your Directors:

| | | | | | |
|---|---|---|---|---|---|
| Mr. Deepak Seth | - | 00003021 | Dr. Ashutosh Prabhudas Bhupatkar | - | 00479727 |
| Mr. Pallak Seth | - | 00003040 | Mr. Chittranjan Dua | - | 00036080 |
| Mr. Pulkit Seth | - | 00003044 | Mr. Samar Ballav Mohapatra | - | 00327410 |
| Mrs.Shefali Seth | - | 01388430 | Mr. Rajendra Kumar Aneja | - | 00731956 |
| Mr. Anil Nayar | - | 01390190 | Mr. Vinod Vaish | - | 01945795 |

### SUBSIDIARY COMPANIES

In line with the requirements of Accounting Standards AS – 21 issued by the Institute of Chartered Accountants of India, consolidated financial statements presented by the Company include the financial information of its Subsidiaries. As required under Section 212 of the Companies Act, 1956, the statement in respect of the Subsidiary companies is annexed herewith and forms an integral part of this Annual Report.

### AUDITORS

The Auditors, M/s S. R. Dinodia & Co., Chartered Accountants, (Regn. No. 001478N), New Delhi, retires at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment.

### FIXED DEPOSITS

Your Company has not accepted any Fixed Deposits from Public or Shareholders.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, it is hereby confirmed:

i) That in the preparation of the accounts for the financial year ended 31st March 2012, the applicable accounting standards issued by the Institute of Chartered Accountants of India have been followed. There are no material departures from prescribed accounting standards in the adoption of the accounting standards.

ii) That the Directors have adopted such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review.

iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv) That the Directors have prepared the accounts for the financial year ended 31st March 2012 as a 'going concern' and on accrual basis.

**LISTING**

The shares of your Company are listed at Bombay Stock Exchange Limited, Mumbai and National Stock Exchange of India Limited, Mumbai. The listing fees to the Stock Exchanges for the year 2012-13 have been paid.

**REGISTRAR AND SHARE TRANSFER AGENT**

Link Intime India Pvt. Ltd (formerly known as Intime Spectrum Registry Limited) has been appointed as Registrars and Share Transfer Agent (RTA) as common agency both for physical and demat shares, as required under Securities Contract (Regulation) Act, 1956. The detail of RTA forms part of the Corporate Governance Report.

**CORPORATE GOVERNANCE**

Report on Corporate Governance along with the certificate of the Auditors, confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement, forms part of the Annual report.

**CORPORATE GOVERNANCE VOLUNTARY GUIDELINES 2009**

The company is in the process of considering adoption of Corporate Governance Voluntary Guidelines, 2009 (the Guidelines) and formulating relevant policies/codes.

**MANAGEMENT DISCUSSION AND ANALYSIS**

A detailed review of operations, performance and future outlook of the Company is given separately under the head "Management Discussion and Analysis".

**NOTES TO ACCOUNTS**

The observations of the Auditors, if any, have been adequately explained in Notes to Accounts and need no further clarification.

**PARTICULARS OF EMPLOYEES**

Particulars of employees required under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 is nil.

**PARTICULARS W.R.T. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO**

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Rule 2 of the Companies (Disclosures of Particulars in the Report of the Board of Directors) Rules, 1988 relating to 'Energy Conservation', 'Technology Absorption' and Foreign Exchange earnings and outgo are provided in Annexure 1.

**ACKNOWLEDGEMENT**

The Directors of your Company are thankful to Bankers, Business Associates, Customers, Members, Government Bodies & Regulators for the continuous support received from them and place on record their appreciation for the sincere services rendered by the employees at all level.

For and on behalf of the Board
for **PEARL GLOBAL INDUSTRIES LIMITED**
Sd/-
**(DEEPAK SETH)**
CHAIRMAN
(DIN - 00003021)

Place: Gurgaon
Date : 29th May, 2012

## Annexure I to the Director's Report

**A. CONSERVATION OF ENERGY :**

**1. Energy Conservation measures taken:**

- Installed Steam boilers in place of electrical boilers
- Replaced old office electrical items like Air Conditions, fans with energy efficient ones.
- Other measures like placing focused lighting systems and reducing lights wherever not needed.
- Effective utilization of work station for energy conservation

**2. Additional investment and proposals, if any, being implemented for reduction of Energy consumption:**

- Proposal to install Energy Controlling Device to monitor electricity consumption, thereby having efficient control over overall consumption.

**3. Impact of the measures at (1) and (2) above for reduction of energy consumption and consequent impact of production of goods:**

- Due to additional electrical equipments installed for enhancing capacity, the overall energy consumption reduced to some extent.

**4. Total Energy consumption and energy consumption per unit of production as per Form A of the Annexure.**

N.A.

**B. TECHNOLOGY ABSORPTION :**

**Research & Development**

1. **Specific areas in which R & D is carried out by the Company**

Product development is the key to success in the fashion industry. The Company has invested extensively in creating design & development infrastructure across the globe. We have some of best fashion designers on the board, who are constantly keeping their fingers at the pulse of the fashion. They are adapting and evolving new trends on an ongoing fashion.

2. **Benefit derived as a results of the above R & D**

The cycle time has reduced considerably due to dynamic nature of fashion industry with an extensive design & development infrastructure. We are able to offer speed to market solutions to our valued clients.

3. **Future Plan of action**

The design & development infrastructure to be strengthened and maintained to cater to the evolving trends in garments industry.

4. **Expenditure on R & D**

(Rs. In Lacs)

| | **2011-12** | **2010-11** |
|---|---|---|
| a) Capital | **NIL** | NIL |
| b) Recurring | **492.95** | NIL |
| c) Total | **492.95** | NIL |

d) Total R & D expenditure as a percentage of total turnover is approx.0.75% (previous year NIL).

**Technology Absorption, Adaptation and Innovation**

**1. Efforts in brief made towards technology absorption, adaptation and innovation**

Not Applicable

**2. Benefits derived as a result of the above effort e.g. product improvement cost reduction, import substitution etc.**

Not Applicable

**3. In case of imported technology (Imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished.**

| | | | |
|---|---|---|---|
| a | Technology Imported | : | Not Applicable |
| b | Year of Import | : | N.A. |
| c | Has technology been fully absorbed ? | | N.A. |
| d | If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action. | | N.A. |

**C. Foreign Exchange Earnings and Outgo** **(Rs.)**

1. Activities relating to export; initiative taken to increase exports; development of new export markets; and export plans.

The Company through subsidiaries is into export of garments to various countries and has taken various initiatives for increasing exports like strengthening design & development, outsourcing garments from cost effective locations and increasing manufacturing capacities. The Company and subsidiaries have explored new markets in South America, Africa and sourcing partners in Sri Lanka. The Company has valued buyers across the globe and plans to cater to new markets and also to cater to 'A category of International buyers.

2. Total Foreign Exchange used and earned.

**Foreign Exchange Earnings**

| **Particulars** | **2011-12** | 2010 – 11 |
|---|---|---|
| Export of Goods/Software - FOB basis | **6,088,902,841** | 215,031,134 |
| Interest Income | **13,229,155** | – |
| SAP/Mgmt Charges | **13,395,399** | – |
| Design Charges | **12,308,696** | – |
| Total | **6,127,836,091** | – |

**Foreign Exchange Outgo**

| Particulars | **2011-12** | 2010 – 11 |
|---|---|---|
| Foreign Travelling | **1,886,093** | – |
| Advertisement Expenses | **–** | – |
| Commission | **–** | – |
| Sampling Expenses | **–** | – |
| Others | **5,019,375** | – |
| Total | **6,905,468** | – |

## CORPORATE GOVERNANCE

**1. COMPANY'S PHILOSOPHY**

Corporate Governance is a water filter process of any organization, by which every step in the organization cleaned up or you would say it's a cleaner of an organization, Where no spot is left to raise any type of question. It's involve vast areas of integrity, fairness, equity, transparency, accountability and commitment to values. Good Corporate Governance is a Kawatch by which an organization protect himself in difficult times.

It's a strong forward set-up of an organization which creates trust, confidence with stakeholders based on the principles of corporate governance.

Your Company is committed to best Corporate Governance and has fully complied with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges. The Company in its endeavor towards the best Corporate Governance and to provide transparency initiated various measures.

Pearl Global Industries Limited (formerly House of Pearl Fashions Limited) strives not only to foster a corporate culture, ethical behavior but individual accountability and transparency. Over the years, governance process and systems have been strengthened at Pearl Global Industries Limited. In addition to complying with the statutory requirements, effective governance system and practices towards improving transparency, disclosures, internal controls and promotion of ethics at work-place.

Your Company committed towards its buyers, institutions/bankers, employees/workers and other government agencies which are directly or indirectly concerned with the company.

**2. BOARD OF DIRECTORS**

As on 31st March 2012, the Company's Board of Directors consists of 10 (Ten) members. The Chairman of the Board is non-executive Promoter Director. The Board comprises of three executive Director and seven non-executive Directors, of whom five are Independent Directors. The composition of the Board is in conformity with the requirements of Clause 49 of the listing agreement. All non-executive independent Directors are persons of eminence and bring a wide range of expertise and experience to the Board.

5 (Five) Board Meetings were held during the year. The dates on which the meetings were held are as follows:

30th May 2011, 12th August 2011, 12th November 2011, 19th January 2012 and 14th February,2012.

**Composition and Category of the Board as on 31.03.2012 and their attendance in the Board and Annual General Meetings are as hereunder:**

| S. No. | Name of Director | Category | No. of outside directorships | No. of Committee | | Attendance | |
|---|---|---|---|---|---|---|---|
| | | | | Member | Chairman | Board Meetings | Annual General Meetings |
| 1 | Mr. Deepak Seth | Non-Executive Chairman | 1 | – | – | 5 | No |
| 2 | Mr. Pallak Seth | Non Executive Vice-Chairman | 1 | – | – | 1 | No |
| 3 | Mr. Pulkit Seth | Managing Director | 2 | 2 | – | 5 | Yes |
| 4. | Mrs. Shefali Seth | Whole Time Director | – | – | – | 2 | No |
| 5. | Mr. Sanjay Pershad # | Non Executive Director | – | 1 | – | 2 | No |
| 6 | Dr. Ashutosh P. Bhupatkar | Independent Director | 1 | 2 | 2 | 5 | Yes |
| 7 | Mr. Samar Ballav Mohapatra | Independent Director | 1 | 2 | 2 | 5 | Yes |
| 8 | Mr. Chittranjan Dua | Independent Director | 6 | – | – | 5 | No |
| 9 | Mr. Rajendra K Aneja | Independent Director | – | 1 | – | – | No |
| 10 | Mr. Anil Nayar | Independent Director | – | – | – | 2 | No |
| 11 | Capt. Vinod Vaish | Whole Time Director | – | – | – | 1 | No |

Mr. Deepak Seth, Chairman, is related to Mr. Pulkit Seth, Managing Director, Mr. Pallak Seth, Vice Chairman and Mrs. Shefali Seth, Whole-Time Director.

# Ceased to be Director w.e.f .19.01.2012, upon resignation.

**Notes:**

1. The committees considered for the purpose are those prescribed under clause 49 (IV) (B) of the Listing Agreement.
2. Foreign Companies, Bodies Corporate, Private Companies and Companies under Section 25 of the Companies are excluded for the above purpose.

As stipulated by Clause 49, none of the Directors was a member of more than 10 committees, or a Chairman of more than 5 committees across all companies in which he was a director.

There is no Nominee or Institutional Directors on the Board of the Company.

**Information supplied to the Board**

The Board has complete access to all information with the company. Inter alia, the following information are provided to the board and the agenda papers for the meetings are circulated in advance of each meeting or are tabled.

- Annual Operating plans and budgets, Capital budgets, updates;
- Quarterly results for the company and its operating divisions or business segments;
- Minutes of meetings of Audit Committee and other committees of the Board;
- Information on recruitment and remuneration of senior officers just below the board level including appointment or removal of Chief Financial Officer and Company Secretary;
- Materially important show cause, demand, prosecution and penalty notices;
- Fatal or serious accidents or dangerous occurrences;
- Any materially significant effluent or pollution problems;
- Any materially relevant default in financial obligations to and by the Company, or substantial non-payment for goods sold by the Company;
- Any issue, which involves possible public or product liability claims of a substantial nature;
- Details of any joint venture or collaboration agreement;
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property;
- Significant labour problems and their proposed solutions;
- Any significant development in the human resources and industrial relations fronts;

- Sale of material nature, of investments, subsidiaries, assets, which is not in the normal course of business;
- Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement, and
- Non-compliance of any regulatory, statutory nature or listing requirements and shareholder services such as non-payment of dividend and/or delay in share transfer.

**Compliance with the Code of Conduct**

The Company has adopted a "Code of Conduct for the Directors and Senior Management". The Code is available on the official website of the Company www.houseofpearl.com.

It is hereby affirmed that the Directors and Senior Management have given an annual affirmation of compliance with the code of conduct.

**3. AUDIT COMMITTEE**

The Audit Committee has been constituted as per Section 292A of the Companies Act, 1956 and the guidelines set out in Clause 49 of the Listing Agreement. The terms of reference includes:-

- Overseeing financial reporting processes.
- Reviewing periodic financial results, financial statements and adequacy of internal control systems.
- Discussion and review of periodic audit reports and
- Discussions with external auditors about the scope of audit including the observations of the auditors.
- Recommending the appointment, remuneration and removal of statutory auditors.
- Discussing with internal auditors any significant findings and follow up there on.
- Reviewing the adequacy of internal control systems with management, external and internal auditors and reviewing the Company's financial risk and management policies.
- Reviewing the financial statements and quarterly financial results.

During the year, the Audit Committee, under the Chairmanship of Dr. A. P. Bhupatkar, met four times and discharged its responsibilities in accordance with Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement. The meetings of the Audit Committee were held on 30th May 2011, 12th August 2011, 12th November 2011 and 14th February 2012 during the financial year 2011-12. The maximum gap between any two meetings was less than four months.

The members of the Audit Committee and their attendance are as under:

| **Audit Committee** | |
|---|---|
| **Composition** | **No. of Meetings attended** |
| Dr. A. P. Bhupatkar – Chairman Director | 4 |
| Mr. S.B. Mohapatra – Member Director | 4 |
| Mr. Sanjay Pershad – Member Director # | 2 |
| Mr. Anil Nayar – Member Director | 1 |

All the members of an Audit Committee are Non- Executive Directors and the Chairman of the Committee is Non- Executive and Independent Director. All the members of the committee posses financial/accounting expertise.

Mr. Sandeep Sabharwal, General Manager and Company Secretary acts as Secretary of the Audit Committee.

# Mr. Sanjay Pershad ceased to be member of Audit Committee w.e.f 19.01.2012 upon resignation from the Board. The Board inducted, Mr. Anil Nayar an Independent Director as member of the Audit committee w.e.f.19.01.2012.

**4. REMUNERATION COMMITTEE**

The remuneration committee comprised of Mr. S.B. Mohapatra, Chairman, Dr. A.P. Bhupatkar and Mr. Rajendra K Aneja as members.

Terms of Reference of the Remuneration Committee include:

- To determine the remuneration, review performance and decide on variable pay of executive Directors.
- To determine the number of stock options to be granted under the company's Employees Stock Option Schemes and administration of the stock option plan.
- Such other matters as may from time to time be required by any statutory, contractual or other regulatory requirements to be attended to by the Remuneration Committee.
- Establishment and administration of employee compensation and benefit plans.

All the members of the Remuneration Committee are Non Executive and Independent Directors.

One meeting of the Remuneration Committee was held on 19-01-2012 during the financial year 2011-12.

The Remuneration Policy of the Company for managerial personnel is primarily based on the following criteria:

- Performance of the Company, its divisions and units
- Track record, potential, past remuneration and performance of individual appointee
- External competitive environment.

**Details of remuneration paid to all the Directors for the year 2011-12:**

(Amount in Rs.)

| **Name of the Director(s)** | **Mr. Deepak Seth** | **Mr. Pallak Seth** | **Mr. Pulkit Seth** | **Mr. Sanjay Pershad** | **Mr. C R Dua** | **Mr. Samar Ballav Mohapatra** | **Mr. Rajendra K Aneja** | **Dr. A. P. Bhupatkar** | **Mrs. Shefali Seth** | **Capt. Vinod Vaish** |
|---|---|---|---|---|---|---|---|---|---|---|
| Designation | Chairman | Vice-Chairman | Managing Director | Director | Director | Director | Director | Director | Whole Time Director | Whole Time Director |
| Salary | – | – | 48,00,000 | – | – | – | – | – | 9,67,742 | 1,37,806 |
| Benefits | – | – | – | – | – | – | – | – | – | |
| HRA | – | – | – | – | – | – | – | – | – | 68,903 |
| SPL Allowance | – | – | – | – | – | – | – | – | – | 35,153 |
| Medical | – | – | – | – | – | – | – | – | – | 3,024 |

(Amount in Rs.)

| Name of the Director(s) | Mr. Deepak Seth | Mr. Pallak Seth | Mr. Pulkit Seth | Mr. Sanjay Pershad | Mr. C R Dua | Mr. Samar Ballav Mohapatra | Mr. Rajendra K Aneja | Dr. A. P. Bhupatkar | Mrs. Shefali Seth | Capt. Vinod Vaish |
|---|---|---|---|---|---|---|---|---|---|---|
| Bonus | – | – | -- | – | – | – | – | – | – | – |
| Commission | – | – | -- | – | – | – | – | – | – | – |
| Pension | – | – | -- | – | – | – | – | – | – | – |
| Others (Provident Fund) | – | – | 9,360 | – | – | – | – | – | 1,887 | 1,887 |
| Break up of fixed components and Performance linked incentives with performance criteria | – | – | – | – | – | – | – | – | – | – |
| Performance Incentive | – | – | – | – | – | – | – | – | – | – |
| Service Contract | – | – | 3 years | – | – | – | – | – | 3 years | 3 years |
| Notice Period, Severance fees | Nil | Nil | Nil | – | Nil | Nil | Nil | Nil | Nil | Nil |
| Stock Options details (if any): Whether issued at discount. Period over which it is accrued and is exercisable | Nil | Nil | Nil | – | Nil | Nil | Nil | Nil | Nil | Nil |
| Sitting Fees | 62,500 | 7,500 | – | 40,000 | 62,500 | 62,500 | – | 62,500 | – | – |
| Total | 62,500 | – | 48,09,360 | 40,000 | 62,500 | 62,500 | – | 62,500 | 9,69,629 | 2,46,773 |

Sitting fee to Non Executive Directors for attending each Board meeting was revised from Rs.20,000/- to Rs.7,500/- effect from 12th November,2011.Besides above, the Company does not pay any other commission or remuneration to its Directors. The Company has no policy of stock option, pension or severance fee for its Directors.

Mr. Deepak Seth, Chairman holds 15,44,499 equity shares (7.13%), Mr. Pallak Seth, Vice-Chairman holds 13,17,646 equity shares (6.08%), Mr. Pulkit Seth, Managing Director holds 15,11,384 equity shares (6.98%) and Mrs. Shefali Seth, Whole Time Director holds 30 equity shares (0.00%) of the Company. No other Director holds any equity share in the Company.

As required, a brief profile and other particulars of the Director seeking re-appointment is given in the Notice of the 23rd Annual General Meeting and forms part of the corporate governance report.

**5. FINANCE COMMITTEE**

The Finance Committee comprises of:

1. Mr. S.B. Mohapatra - Chairman
2. Mr. Pulkit Seth - Member
3. Dr. A. P. Bhupatkar - Member

No meeting of the Finance Committee was held in the financial year 2011-12.

**6. SHAREHOLDER GRIEVANCE & TRANSFER COMMITTEE**

The Shareholder Grievance & Transfer Committee comprises of:

1. Dr. A. P. Bhupatkar - Chairman
2. Mr. Pulkit Seth - Member
3. Mr. S. B. Mohapatra - Member

The Chairman of the Committee is Non- Executive and Independent Director.

The Shareholder Grievance & Transfer Committee meeting held on 24th March, 2012 during the year 2011-12.

Mr. Sandeep Sabharwal, Company Secretary, is the Compliance Officer of the Company.

**Status of Shareholders Complaints during the year**

| Complaints at the beginning of the year. 1st April 2011 | Complaints received during the year. 1st April 2011 – 31st March 2012 | Complaints settled during the year. 1st April 2011 – 31st March 2012 | Complaints pending at the ending of the year 31st March 2012 |
|---|---|---|---|
| Nil | Nil | N.A. | Nil |

**7. CEO/CFO CERTIFICATION**

The Managing Director and Chief financial Officer have certified to the Board, inter alia, the accuracy of financial statements and adequacy of Internal Controls for the financial reporting purpose as required under Clause 49(V) of the Listing Agreement, for the year ended 31st March 2012.

**8. GENERAL BODY MEETINGS**

Location and time where last 3 Annual General Meetings were held:

| Year | AGM | Location | Date | Time |
|---|---|---|---|---|
| 2008-09 | 20th | Sri Sathya Sai International Centre, Pragati Vihar (Near Pragati Vihar Hostel) Lodhi Road, New Delhi-110 003 | 18.09.2009 | 11.30 A.M. |
| 2009-10 | 21st | Air Force Auditorium, Subroto Park, New Delhi-110010 | 25.09.2010 | 4.00 P.M. |
| 2010-11 | 22nd | Sri Sathya Sai International Centre, Pragati Vihar (Near Pragati Vihar Hostel) Lodhi Road, New Delhi-110 003 | 22.09.2011 | 11.30 A.M. |

Detail of Special Resolutions Passed During last three Annual General Meetings:

| Sl. No. | Particulars of Special Resolution | Date | Financial Year |
|---|---|---|---|
| 1 | NIL | 22nd September,2011 | 2010-11 |
| 2 | NIL | 25th September,2010 | 2009-10 |
| 3 | NIL | 18th September 2009 | 2008-09 |

Special Resolution passed last year through postal ballot in respect to.

i) Change of name to Pearl Global Industries Ltd under Section 21 and Section 192A

ii) Alteration of Object Clause ( C) - Other Objects under Section 17 and Section 192A

iii) Commencement of New Business under Section 149(2A) and Section 192A

**9. DISCLOSURES**

1) There had been no materially significant related party transaction that might have potential conflict with the interests of the Company at large. Transactions with related parties are disclosed in Note No.10 of Schedule 16 to the Accounts in the Annual Report.

2) There has been no non-compliance, penalties/strictures imposed on the company by Stock Exchange (s) or SEBI or any other Statutory Authority, on any matter related to capital markets, during the last three years.

3) Presently, the Company does not have a Whistle Blower Policy. No personnel of the Company have been denied access to the Audit Committee.

4) The Company has complied with all the mandatory requirements of Clause 49.

As regard the non-mandatory requirements, the extent of compliance has been stated in this report against each of them.

**10. MEANS OF COMMUNICATION**

(i) The quarterly financial results of the Company are published in leading and widely circulated English/Hindi National/Regional Newspapers as per the requirements of the Listing Agreement with the Stock Exchanges. The results are also fax and courier to the Stock Exchanges where the Company is listed.

(ii) The financial results normally published in Business Standard (English) and Veer Arjun (Hindi).

(iii) The Company's Financial Results, Shareholding Pattern and official news releases are displayed on the Company's website **www.houseofpearl.com**

(iv) The Company regularly updates the media, analysts, institutional investors, etc., through a formal presentation on its financials as well as other business developments.

Annual Report is sent to all the Stock Exchanges and Members of the Company.

The Management Discussion and Analysis forms an integral part of this 23rd Annual Report.

**11. GENERAL SHAREHOLDER INFORMATION**

**(i) Annual General Meeting**

23rd Annual General Meeting is scheduled as under:-

| Day | Date | Time | Venue |
|---|---|---|---|
| Wednesday | 19th September, 2012 | 11.00 A.M | Sri Sathya Sai International Centre, Pragati Vihar (Nr.Pragati Vihar Hostel), Lodhi Road, New Delhi-110 003 |

**(ii) Financial Calender, 2012-13**

First Quarter Results : Second week of August, 2012

Second Quarter & Half Yearly Results : Second week of November, 2012

Third Quarter Results : Second week of February, 2013

Fourth Quarter & Annual Results : Last week of May, 2013

**(iii) Financial year** : The financial year covers the period 1st April to 31st March.

**(iv) Date of Book Closure** : 12th September, 2012 to 19th September, 2012 (both days inclusive)

**(v) Listing on Stock Exchanges and their Stock Code**

Name of the Stock Exchanges, wherein shares of the Company are currently listed and their Script Code:

| Stock Exchange | Script Code |
|---|---|
| Bombay Stock Exchange Ltd., Mumbai | 532808 |
| National Stock Exchange of India Ltd., Mumbai | HOPFL |

The Annual Listing Fee for the financial year 2011-2012 has been paid to the Stock Exchanges within stipulated time.

The ISIN No. of the equity shares of your Company is **INE940H01014.**

**(vi) Market Price Data: High, Low during each month in financial year 2011-12:**

| MONTH(S) | BOMBAY STOCK EXCHANGE Company Code: 532808 | | NATIONAL STOCK EXCHANGE Company Code: HOPFL | |
|---|---|---|---|---|
| | HIGH | LOW | HIGH | LOW |
| April 2011 | 62.40 | 47.50 | 62.00 | 47.50 |
| May 2011 | 66.40 | 50.80 | 66.50 | 50.40 |
| June 2011 | 85.40 | 54.25 | 85.45 | 54.35 |
| July 2011 | 74.50 | 62.95 | 74.30 | 60.10 |
| August 2011 | 71.75 | 52.75 | 71.45 | 52.50 |
| September 2011 | 63.80 | 52.40 | 63.50 | 52.10 |
| October 2011 | 56.60 | 48.55 | 56.50 | 49.00 |
| November 2011 | 58.00 | 48.00 | 56.90 | 47.10 |
| December 2011 | 58.75 | 46.20 | 58.70 | 45.00 |
| January 2012 | 55.00 | 46.95 | 59.90 | 46.00 |
| February 2012 | 88.95 | 51.05 | 88.60 | 51.25 |
| March 2012 | 80.00 | 67.65 | 80.90 | 67.20 |

**(vii) Share price performance in comparison to BSE Sensex and NSE Nifty:**

| MONTH(S) (As on end of last trading day of the month) | SHARE PRICES COMPARISION | | | |
|---|---|---|---|---|
| | HOPFL | BSE (Sensex) | HOPFL | NSE (Nifty) |
| April 2011 | 57.20 | 19135.96 | 57.40 | 5749.50 |
| May 2011 | 65.90 | 18503.28 | 65.95 | 5560.15 |
| June 2011 | 61.45 | 18845.87 | 60.80 | 5647.40 |
| July 2011 | 67.40 | 18197.20 | 68.05 | 5482.00 |
| August 2011 | 58.15 | 16676.75 | 58.40 | 5001.00 |
| September 2011 | 52.55 | 16453.76 | 52.65 | 4943.25 |
| October 2011 | 53.60 | 17705.01 | 55.50 | 5326.60 |
| November 2011 | 51.30 | 16123.46 | 51.05 | 4832.05 |
| December 2011 | 47.10 | 15454.92 | 46.50 | 4624.30 |
| January 2012 | 53.10 | 17193.55 | 52.60 | 5199.25 |
| February 2012 | 76.95 | 17752.68 | 76.90 | 5385.20 |
| March 2012 | 73.60 | 17404.20 | 73.10 | 5295.55 |

**(viii) Registrar and Share Transfer Agent**

Link Intime India Pvt. Limited
A-40, 2nd Floor, Naraina Industrial Area,
Phase – II, New Delhi - 110 028.
Tel. No. : 011 - 41410592 - 94
Fax No. : 011 - 41410591
E-mail : delhi@linkintime.co.in

**(ix) Share Transfer System**

The Company's shares being in compulsory demat form are transferable through the depository system. The Shares in physical form are processed by the Registrar and Transfer Agents and approved by the Sharehiolders' Greivances and Transfer Committee. Share transfer process reviewed by the Board.

**(x) Distribution Schedule**

**(a) Distribution of Equity Shareholding of the Company as on 31st March 2012**

| Number of Equity Shares * held | Shareholders | | Equity shares held | |
|---|---|---|---|---|
| | Numbers | % to total | Numbers | % to total |
| Upto 2500 | 29080 | 91.99 | 1789929 | 8.26 |
| 2501 - 5000 | 1436 | 4.54 | 535977 | 2.47 |
| 5001 - 10000 | 610 | 1.93 | 463166 | 2.13 |
| 10001 - 20000 | 217 | 0.68 | 324845 | 1.49 |
| 20001 - 30000 | 94 | 0.29 | 239119 | 1.10 |
| 30001 - 40000 | 31 | 0.09 | 111086 | 0.51 |
| 40001 - 50000 | 26 | 0.08 | 122125 | 0.56 |
| 50001 - 100000 | 56 | 0.17 | 420538 | 1.94 |
| 100001 and above | 39 | 0.19 | 17657152 | 81.50 |
| **Total** | **31589** | **100.00** | **21663937** | **100.00** |

**(b) Categories of Shareholders as on 31st March 2012**

| | No. of Folio's | % to total Folios | No. of Shares held | % to total Shares |
|---|---|---|---|---|
| **PROMOTERS** | | | | |
| NRI | 2 | 0.00 | 2862145 | 13.21 |
| Indian | 6 | 0.01 | 11562764 | 53.37 |
| | | | | |
| **TOTAL (A)** | **8** | **0.02** | **14424909** | **66.58** |
| Institutional Investors (Mutual Funds/UTI /Banks/FI's etc.) | 6 | 0.01 | 916882 | 4.23 |
| FII's | 0 | 0.00 | 0 | 0 |
| Insurance Companies | 2 | 0.00 | 513332 | 2.37 |
| NRI's / OCB's | 142 | 0.44 | 359421 | 1.66 |
| Other Bodies Corporate | 432 | 1.36 | 813067 | 3.75 |
| Others (Clearing Members) | 27 | 0.08 | 5778 | 0.03 |
| Others (Individual) | 29790 | 94.30 | 4243535 | 19.59 |
| Others (HUF) | 1180 | 3.73 | 384078 | 1.77 |
| Others (Trusts) | 2 | 0.00 | 2935 | 0.01 |
| **TOTAL (B)** | **31581** | **99.98** | **7239028** | **33.42** |
| **TOTAL { (A) + (B) } = (C)** | **31589** | **100.00** | **21663937** | **100.00** |

* Equity Share of the face value of Rs.10/- each.

**(xi) Dematerialisation of Shares and liquidity**

The shares of the Company are in compulsory demat segment and are available for trading in the depository systems of both NSDL and CDSL. As on 31st March 2012, 1,91,74,489 equity shares of the Company forming 88.51% of the Share Capital of the Company stand dematerialized.

**(xii) Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity:**

The Company has not issued any GDRs/ADRs/Warrants etc. till date.

**(xiii) Plant locations:**

The Company have following plants at various locations in India, Bangladesh and Indonesia, as follows:

i) 446, Udyog Vihar, Phase-V, Gurgaon - 122 016 (Haryana)
ii) 751, Pace City II, Sector 37, Khandsa, Gurgaon - 122 004 (Haryana)
iii) 16-17, Udyog Vihar, Phase VI, Khandsa, Gurgaon - 122 004 (Haryana)
iv) 274, Udyog Vihar, Phase - II, Gurgaon - 122016
v) D-6/II, Phase II, Zone B, MEPZ-SEZ, Tambaram, Chennai - 600 045 (Tamil Nadu)
vi) Norp Knit Industries Ltd., North Khilkar, P.O. National University, Gazipur, Bangladesh.
vii) P.T. Norwest Industry, Tanjung Emas Export, Processing Zone, Blok A-15-15A, JL Coaster No. 8, Semarang, 50174, Indonesia.

**(xiv) Registered Office of the Company:**

A-3, Community Centre, Naraina Industrial Area,
Phase-II, New Delhi - 110 028

**Corporate Office & Address for Correspondence:**

446, Udyog Vihar Phase-V,
Gurgaon - 122 016 (Haryana)

**In case of any Complaint, Investors can contact Compliance Officer:**

Mr. Sandeep Sabharwal
Company Secretary
Pearl Global Industries Limited
446, Phase V, Udyog Vihar
Gurgaon - 122 016, Haryana (India)
Tel. No. : 91 - 124 - 4651714
Fax No. : 91 - 124 - 4651173

**12.** In regards, shares remains unclaimed and lying in the IPO escrow A/c of the company for the financial year 2011-12, information is as follows:

- Total shares outstanding at the beginning of Financial Year are 420 & total number of shareholders is 20.
- Number of shareholders approached the company for transfer of shares: NIL
- No. of shareholders to whom shares transferred from escrow a/c: NIL
- Aggregate number of shareholders & shares at the close of the year are 20 and 420 respectively.
- Voting rights of these shares shall remain frozen till claim made against their shares.

**Non-Mandatory Requirements**

The status/extent of compliance of non mandatory requirements is as follows:

(1) (a) Maintenance of Non-Executive Chairman's Office Presently, the Company is not maintaining office of the Non-Executive Chairman.
(b) Independent Directors may have tenure, not exceeding, in the aggregate, a period of nine years, on the Board of the Company. As on date, there are no Independent Directors having a term of office exceeding nine years.

(2) Remuneration Committee.
Already constituted. Details given in the preceding paragraphs.

(3) Half-yearly financial performance and summary of significant events to be sent to each household of shareholders.
The Company's Financial Results, Shareholding Pattern and official news releases are displayed on the Company's website www.houseofpearl.com.

(4) Audit Qualifications – presently not applicable to the Company.

(5) Training of the Board Members.
Presently the Company does not have such training programme.

(6) Mechanism for evaluating Non-Executive Board Members.
Presently, the Company does not have such a formal mechanism as contemplated for evaluating the performance of Non-Executive Board Members.

(7) Whistle Blower Policy
Presently, the Company does not have a Whistle Blower Policy. However, No personnel has been denied access to the Chairman of Audit Committee.

**Electronic Clearing Service (ECS)**

SEBI had vide its Circular No. DCC/FITTCIR-3/2001 dated October 15, 2001 advised that all companies should mandatorily use ECS facility wherever available. In the absence of ECS facility, companies may use warrants for distributing the dividends and vide its Circular No. D&CC/FITTCIR-04/2001 dated November 13, 2001 had advised companies to mandatorily print the Bank Account details furnished by the Depositories, on the dividend warrants. This ensures that the dividend warrants, even if lost or stolen, cannot be used for any purpose other than for depositing the money in the accounts specified on the dividend warrants and ensures safety for the investors. However, members who wish to receive dividend in an account other than the one specified while opening the Depository account, may notify their DPs about any change in the Bank Account details.

**Depository Services**

For guidance on depository services, shareholders may write to the Company or to the respective Depositories:

**National Securities Depository Ltd.**
Trade World, 4th Floor, Kamala Mills Compound
Senapati Bapat Marg, Lower Parel, Mumbai-400013
Telephone : 022-24994200
Facsimile : 022-24972993
E-Mail : info@nsdl.co.in
Website : www.nsdl.co.in

**Central Depository Services (India) Ltd.**
Phiroze Jeejeebhoy Towers
28th Floor, Dalal Street, Mumbai-400023
Telephone : 022-22723333/3224
Facsimile : 022-22723199
E-Mail : investors@cdslindia.com
Website : www.cdslindia.com

## MANAGEMENT DISCUSSION AND ANALYSIS

Pearl Global Industries Limited is operating in three business streams: manufacturing, marketing and distribution and sourcing of garments through its subsidiaries. The company also provides total supply chain solutions to our customers, which include value retailers as well as higher-end fashion brand retails in the United States and Europe. Our Multi stream business enables us to offer multi country, multi gender and multi product options to our global customers. The company has marketing and distribution network, through subsidiaries, in U.K., U.S. and Hong Kong. These offices oversee our marketing and merchandizing teams across Canada, Europe, Hong Kong, U.K. and U.S. that interact with our customers at their locations, which helps us to better understand our customers' requirements. The company's subsidiaries have manufacturing facilities in Bangladesh, India, and Indonesia for execution of their customers' orders.

We have fabric development centers in China and India as well as design and product development teams in U.K., U.S., India and Hong Kong. The fabric development teams circulate the latest fabric ideas to all the designers who develop a product profile, which is then sent to the manufacturing facilities for product development. Our design and product development teams support all three streams of our business across all locations.

The company has adopted market diversification strategy based on the changing dynamics of growth in the world economy as it is necessary to ensure sustained growth of exports. The demand in the traditional markets of the developed western world, North America and Europe, is projected to be relatively sluggish due to slowing output expansion in these economies. Against this, emerging economies are expected to grow at about 6.5%. The company is focusing on markets in Asia (including ASEAN), Africa and Latin America, in addition to its existing markets.

### INDUSTRY STRUCTURE & DEVELOPMENT

The Indian economy commenced its journey with considerable confidence but an unfortunate combination of high inflation fuelled by spiraling commodity fuel prices, declining industrial output, high interest rate, weakening rupee and policy gridlock choked the growth momentum. This has lead to decrease in growth rate to 6.7% in 2011-12 against 8.4% in 2010-11. However, the long term prospectus of the country are still positive.

The hitherto struggling garment export sector witnessed dampening exports during most part of 2011 due to bad market conditions in Europe and sluggish market in the US. However, exports helped it to sail through. Apparel exports reached $12 billion in February 2012 with a growth rate of 18.9% against the corresponding period last year. It touched $13.50 billion during 2011-12 against $11 million in 2010-11.

Despite the difficult year India could register an increase of 6.56% in value though the volumes were down (-) 7.37%.The average UVR for Indian garments exported to the US was up from $3.20 last year to $ 3.69 this year. China in the meanwhile is also getting expensive and through there was growth of 5.07% in value, the volumes suffered with a (-) 6.24% decline in the review period. The average UVR of china was also up from last year at 3.02, still lower than the US average.

More than 80% of India's apparel goes to the consumers in the US and Europe. Anticipating yet another slowdown in the EU and poor demand from those markets, apparel exporters looked at alternative destinations during the period. "Indian exporters entered Latin America, southern and western Africa, Japan, Russia, Israel and Australia during the year.

### COMPANY PERFORMANCE AND FUTURE OUTLOOK

With the recent trends, the future of the garment industry in India look it is quite promising. The Indian garment industry alone provides employment to lakhs of people, a high percentage among who are young women. Therefore, the significance of the Indian garment industry cannot be ruled out when it comes to employment generation and foreign exchange generation. The growth in the garment industry will boost the growth of Indian economy.

Despite decline in initial months in the industry the company has achieved income of Rs. 2798.49 Crore compared to Rs. 2252.03 Crore in last financial year on consolidated basis, a growth of 24%.

However, due to pressure on margins by buyers and new projects yet to yield optionally, the bottom-line has not grown proportionately.

### OPPORTUNITIES & THREATS

The Indian economy is facing difficult time resulting from unfortunate combination of high inflation, declining industrial output, high interest rate, weakening rupee and policy gridlock choked the growth momentum. The growth rate has come down to 6.7% in 2011-12 against 8 – 9% in recent past.

The inflationary situation in India demands for rise in wages for the workers. Input costs are also rising in India. Due to rising cost, India faces competition from low cost countries like Bangladesh and Indonesia.

In today's market scenario, where most of the top retailers of the world are consolidating their vendor bases, stand alone vendors are going out of business and there share is being taken over by companies like PGIL.. Vendors that are able to offer value addition in terms of design input, provide different sourcing options and have the operational and financial resources to meet retailers increasing requirements are being categorized as their "Preferred Vendors". This gives the vendor an edge over the competition. Due to all its investments over the last couple of years, your company through its subsidiaries has already been categorized as Preferred Vendor by various big Retailers in US and Europe.

### RISKS & CONCERNS

The group works only with customers who have sound financial credibility. All orders are either backed by bank consigned L/c or insured with Banks / Euler Hermes. The group does not take any risk on account of stock. All inventory / purchases are backed by confirmed customer orders rupee appreciation is always a major concern to our type of industry. This year also, rupee fell by 13-14% against USD.

Garment manufacturing is totally a labour intensive and even after greater automation it will remain so. The obsolete and antiquated labour legislation has hindered the growth of the extremely labour intensive garment manufacturing. The restrictive industrial and labour laws restrain management's capability to respond professionally, effectively and speedily to the fast changing dynamic international textile scenario and request for labour reforms with flexible labour laws to increase productivity.

There is an urgent need for flexible labour norms specific to garment manufacturers and exporters to enable them to meet the increasing international competition especially with regard to employment of casual labour and overtime hours of work during high season which are necessitated by the requirement of meeting tight delivery schedules required for export.

Even as the debate rages there is no doubt that there is a need to move out existing manufacturing bases to bring down the cost, but is also true that going to new areas which do not have infrastructure to support the industry is not only difficult, but also ultimately more expensive.

### INTERNAL CONTROL SYSTEM

The Company's internal control system has been designed to provide for:

i) Accurate recording of transactions with internal checks and prompt reporting

ii) Adhere to applicable Accounting standards and policies.

iii) Review of capital investments and long term business plans.

iv) Periodic review meetings to manage effectively implementation of system.

v) Compliance with applicable statutes, policies, listing requirements and operating guidelines of the Company.

vi) Effective use of resources and safeguarding of assets.

vii) IT systems with in built controls to facilitate all of the above.

The Company has adequate systems of internal controls to ensure that transactions are properly recorded, authorized and reported apart from safeguarding its assets. Your company has successfully implemented SAP for its manufacturing units and will continue upgrading the same.

The Company has its own Corporate Internal Audit set up which carries out periodic audits at all locations and all functions and brings out deviations to internal control procedures. The observations arising out of audit are periodically reviewed and compliance ensured.

### HUMAN RESOURCE MANAGEMENT

Our Group is more concentrate on human resource activities by which employee are benefited to lean lot of things. Human resource is a key for an organization which can be used for attaining the targets of the company. Therefore, special emphasis is placed on human resources function in our Company.

Our Company adopts a "People up gradation" approach to leverage the potential of employees. Our focus to improve employee productivity through continuing training and by emphasizing the importance of quality products and customer satisfaction.

### CAUTION STATEMENT

*Investors are cautioned that this discussion contains statements that involve risks and uncertainties. Words like anticipate, believe, estimate, intend, will, expect and other similar expressions are intended to identify such forward looking statements. The Company assumes no responsibility to amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events. Besides the Company cannot guarantee that these assumptions and expectations are accurate or will be realized and actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements.*

## AUDITORS' CERTIFICATE ON COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE AS PER CLAUSE 49 OF THE LISTING AGREEMENT WITH THE STOCK EXCHANGE

The members of **Pearl Global Industries Limited (formerly House of Pearl Fashions Limited)**

We have examined the compliance of the conditions of Corporate Governance by Pearl Global Industries Limited, for the year ended on 31st March 2012 as stipulated in clause 49 of the Listing Agreement of the Company with the Stock Exchange.

The compliance of the conditions of the Corporate Governance is the responsibility of the Management. Our examination has been limited to a review of the procedure and implementations thereof, adopted by the Company for ensuring compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion of the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conduced the affairs of the Company.

For **S.R. DINODIA & CO.**
Chartered Accountants

**(SANDEEPO DINODIA)**
Partner
M. No. 083689

Place : New Delhi
Date : 25th May, 2012

## CERTIFICATION BY MANAGING DIRECTOR AND CHIEF FINANCE OFFICER OF PEARL GLOBAL INDUSTRIES LIMITED

We, Pulkit Seth, Managing Director and Shailendra Sancheti, Chief Finance Officer of Pearl Global Industries Limited (formerly House of Pearl Fashions Ltd.), to the best of our knowledge and belief certify that:

a. We have reviewed the financial statements and Cash Flow Statement for the year ended 31st March, 2012 and to the best of our knowledge and belief:
   i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.
   ii) these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
b. We also certify that to the best of our knowledge and belief, there are no transactions entered into by Pearl Global Industries Ltd., during the year, which are fraudulent, illegal or violative of the Company's Code of Conduct.
c. We are responsible for establishing and maintaining internal controls for financial reporting and have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and we have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
d. We have indicated to the Auditors and the Audit Committee:
   i. Significant Changes, if any, in Internal controls during the year.
   ii. Significant changes , if any, in accounting policies during the year and that the same have been disclosed in the Notes to the financial statements; and
   iii. Instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.
e. We affirm that we have not denied any personnel, access to the Audit Committee of the Company (in respect of matters involving misconduct, if any)
f. We further declare that all Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct for the current year.

| | | |
|---|---|---|
| Place: Gurgaon. | **(Pulkit Seth)** | **(Shailendra Sancheti)** |
| Date: 29th May, 2012 | **Managing Director** | **Chief Finance Officer** |

## AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

**TO THE BOARD OF DIRECTORS OF PEARL GLOBAL INDUSTRIES LIMITED( FORMERLY KNOWN AS HOUSE OF PEARL FASHIONS LIMITED) ON THE CONSOLIDATED FINANCIAL STATEMENTS OF PEARL GLOBAL INDUSTRIES LIMITED**

We have examined the attached Consolidated Balance Sheet of Pearl Global Industries Limited (Formerly known as House of Pearl Fashions Limited) and its subsidiaries, as at March 31st 2012, the Consolidated Statement of Profit and Loss and also the Consolidated Cash Flow statement for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the management of Pearl Global Industries Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An Audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the financial statements of certain subsidiaries, whose financial statement reflect total assets of Rs. 10,207,395,097 as at March 31st 2012 and total revenues of Rs. 23,695,697,291 for the year then ended. These financial statements have been audited by others auditors whose reports have been furnished to us, and in our opinion, in so far as it relates to the amounts included in respect of these subsidiaries is based solely on the report of the other auditors.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21-Consolidated Financial Statements, notified by the Companies (Accounting Standards) Rules, 2006 and on the basis of separate audited/ certified financial statements of Pearl Global Industries Limited and its subsidiaries included in the consolidated financial statements.

Based on our audit and on consideration of reports of other auditors on separate financial statements and other financial information of the components Pearl Global Industries Limited and its subsidiaries, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements give true and fair view in conformity with the accounting principles generally accepted in India:

(a) In case of the Consolidated Balance Sheet, of the consolidated state of affairs of Pearl Global Industries Limited and its subsidiaries as at March 31st 2012;
(b) In case of the Consolidated Statement of Profit and Loss, of the consolidated results of operations of Pearl Global Industries Limited and its subsidiaries for the year ended on that date; and
(c) In the case of the Consolidated Cash Flow Statement, of the consolidated cash flows of Pearl Global Industries Limited and its subsidiaries for the year ended on that date.

FOR **S.R. DINODIA & CO.,**
CHARTERED ACCOUNTANTS,
REGN. NO. 001478N

**(SANDEEP DINODIA)**
PARTNER
M. No : 083689

Place: New Delhi
Dated: 29th May, 2012

## CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2012

(Amount in Rupees)

| | Note No. | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share Capital | 3 | **216,639,370** | 195,003,430 |
| Reserves and surplus | 4 | **5,264,153,899** | 4,518,026,724 |
| | | **5,480,793,269** | 4,713,030,154 |
| **Minority Interest** | | **287,222,681** | 516,137,328 |
| **Non-current liabilities** | | | |
| Long-term borrowings | 5 | **533,464,637** | 394,815,634 |
| Deferred tax liabilities (net) | 6 | **22,548,942** | 22,899,244 |
| Other Long Term Liabilities | 9.1 | **128,738,847** | 46,336,993 |
| Long-term provisions | 7 | **11,310,058** | 20,425,266 |
| | | **696,062,484** | 484,477,137 |
| **Current liabilities** | | | |
| Short-term borrowings | 8 | **3,899,481,191** | 3,990,541,330 |
| Trade payables | 9 | **2,620,625,621** | 1,977,705,256 |
| Other current liabilities | 9 | **750,503,773** | 516,740,810 |
| Short-term provisions | 7 | **50,230,241** | 15,042,130 |
| | | **7,320,840,826** | 6,500,029,526 |
| **TOTAL** | | **13,784,919,260** | 12,213,674,145 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 10 | **2,623,901,916** | 2,561,466,757 |
| Intangible assets | 10 | **597,514,266** | 550,229,197 |
| Capital work-in-progress | 10 | **114,880,254** | 47,332,563 |
| Non-current investments | 11 | **86,384,145** | 46,587,494 |
| Deferred tax assets | 6 | **91,956,112** | 78,722,063 |
| Long-term loans and advances | 12 | **384,899,970** | 573,981,820 |
| Other non-current assets | 14.2 | **41,046,537** | 14,775,614 |
| | | **3,940,583,200** | 3,873,095,508 |
| **Current assets** | | | |
| Current Investment | 11 | **12,905,837** | 36,836,994 |
| Inventories | 13 | **2,495,883,643** | 2,425,070,997 |
| Trade receivables | 14.1 | **5,088,585,288** | 3,515,751,112 |
| Cash and bank balances | 15 | **1,557,647,014** | 1,711,381,271 |
| Short-term loans and advances | 12 | **572,930,305** | 551,121,146 |
| Other current assets | 14.2 | **116,383,973** | 100,417,118 |
| | | **9,844,336,060** | 8,340,578,637 |
| **TOTAL** | | **13,784,919,260** | 12,213,674,145 |
| Summary of Significant Accounting policies | 2.3 | | |

The accompanying notes are an integral part of the financial statements.

**As per our report of even date attached**

**For S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 01478N

**(SANDEEP DINODIA)**
Partner
M. No. 083689

Place: New Delhi
Date: 29th May, 2012

**For & on behalf of the Board of Directors**

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2012

**(Amount in Rupees)**

| | Note No. | For the year ended March 31, 2012 | For the year ended March 31, 2011 |
|---|---|---|---|
| Revenue from operations | 16 | **27,984,910,633** | 22,510,310,300 |
| Other income | 17 | **154,460,395** | 493,051,271 |
| **Total Revenue** | | **28,139,371,028** | 23,003,361,571 |
| **Expenses:** | | | |
| Cost of materials consumed | 18 | **2,720,236,677** | 2,465,062,670 |
| Purchases of Stock-in-Trade | 19 | **18,353,826,256** | 14,044,998,526 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-Trade | 19 | **25,783,472** | (205,951,736) |
| Employee benefits expense | 20 | **2,362,615,655** | 2,123,156,151 |
| Finance costs | 21 | **523,161,117** | 425,521,840 |
| Depreciation and amortization expense | 10 | **251,470,630** | 227,197,697 |
| Other expenses | 22 | **3,444,657,144** | 3,666,730,918 |
| **Total expenses** | | **27,681,750,952** | 22,746,716,065 |
| **Profit before exceptional and extraordinary items and tax** | | **457,620,076** | 256,645,506 |
| Exceptional items | 23 | **24,342,176** | 20,027,992 |
| Profit before extraordinary item and tax | | **481,962,252** | 276,673,498 |
| Extraordinary Items | 24 | **15,249,748** | 60,058,033 |
| **Profit before tax** | | **466,712,503** | 216,615,465 |
| **Tax expense:** | | | |
| Current Tax | | **98,680,982** | 31,285,834 |
| Less: MAT credit entitlement | | **–** | (16,931,335) |
| Deferred Tax | | **(13,511,874)** | (26,492,845) |
| Taxes for earlier years | | **(3,939,828)** | – |
| **Profit/(Loss) before minority share** | | **385,483,223** | 228,753,811 |
| Less: Minorities Share in (Profits)/Loss | | **(70,582,756)** | (33,103,510) |
| **Profit/(Loss) of the year** | | **314,900,466** | 195,650,301 |
| **Earnings per equity share:** | | | |
| Basic | 25 | **14.54** | 10.03 |
| Diluted | 25 | **14.54** | 10.03 |
| Summary of Significant Accounting policies | 2.3 | | |

The accompanying notes are an integral part of the financial statements.

**As per our report of even date attached**

**For S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 01478N

**(SANDEEP DINODIA)**
Partner
M. No. 083689

Place: New Delhi
Date: 29th May, 2012

**For & on behalf of the Board of Directors**

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2012

(Amount in Rupees)

| Particulars | For the year ended March 31, 2012 | | For the year ended March 31, 2011 | |
|---|---|---|---|---|
| **A. CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Net Profit Before Tax and Prior Period Items | | **481,805,539** | | 282,171,338 |
| **Adjustments For :** | | | | |
| Depreciation | **251,470,630** | | 227,197,697 | |
| Sundry Balance Written Back | – | | (1,295,385) | |
| Bad Debts Written Off | – | | (213,403) | |
| Dividend Income | **(7,575)** | | (175,492) | |
| (Profit)/Loss on sale of Assets | **(24,342,176)** | | (20,027,992) | |
| (Profit)/Loss on sale of Investment | **(484,215)** | | 416,799 | |
| Rent received | **(35,463,175)** | | (18,826,951) | |
| Net Interest paid | **293,996,697** | | 275,849,424 | |
| Foreign Currency Translation Reserve | **162,019,114** | | 24,518,180 | |
| Foreign Exchange Fluctuation | **(35,306,941)** | | (209,342,205) | |
| Interest received | **(48,082,086)** | | (46,475,997) | |
| | | **563,800,275** | | 231,624,674 |
| **OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES** | | **1,045,605,814** | | 513,796,013 |
| **Adjustments For :** | | | | |
| Trade and Other Receivables | **(1,423,650,308)** | | (193,402,966) | |
| Inventories | **(70,812,646)** | | (745,049,989) | |
| Trade Payables and other payables | **674,502,857** | | (155,553,846) | |
| | | **(819,960,097)** | | (1,094,006,802) |
| **CASH GENERATED FROM OPERATIONS** | | | | |
| | | **225,645,717** | | (580,210,789) |
| Direct Taxes Paid | **(69,395,380)** | **(69,395,380)** | (16,709,454) | (16,709,454) |
| **CASH FLOW BEFORE PRIOR PERIOD ITEMS/EXCESS PROVISION WRITTEN BACK/EXTRA ORDINARY ITEM** | | **156,250,337** | | (596,920,243) |
| Extra Ordinary Item | | **(15,249,748)** | | (60,058,033) |
| Prior period Items/Excess Provision w/back | | **156,712** | | (5,497,840) |
| **NET CASH FROM OPERATING ACTIVITIES (A)** | | **141,157,301** | | (662,476,116) |
| **B. CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Purchase of Fixed Assets (including CWIP | **(265,736,853)** | | (422,917,136) | |
| Sale of Investment | **4,856,204,** | | 4,859,183 | |
| Investment made during the year | **(19,032,461)** | | (39,347,909) | |
| Investment in bank deposits (having original maturity of more than one year) | **(3,798,806)** | | (14,585,614) | |
| Purchase consideration on acquisition of subsidiaries (net of cash acquired) | **(157,319)** | | (546,587,585) | |
| Sale of Fixed Assets | **97,321,176** | | 194,140,538 | |
| Interest Received | **48,082,086** | | 46,475,997 | |
| Rent Received | **35,463,175** | | 18,826,951 | |
| Dividend Received | **7,575** | | 175,492 | |
| **NET CASH USED IN INVESTING ACTIVITIES (B)** | | **(102,995,224)** | | (758,960,083) |
| **C. CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Interest Paid | **(293,996,697)** | | (275,849,424) | |
| Repayment (to)/ from Minority interest | **19,207,745** | | 14,229,757 | |
| Dividend Paid | **(3,186)** | | 50,609 | |
| Proceeds from Long Term Borrowings (Net) | **47,588,864** | | 1,864,698,713 | |
| **NET CASH FROM FINANCING ACTIVITES (C)** | | **(227,203,274)** | | 1,603,129,656 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)** | | **(189,041,197)** | | 181,693,457 |
| **Foreign Exchange Fluctuation** | | **35,306,941** | | 209,342,205 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **1,711,381,271** | | 1,320,535,609 |
| **CASH AND CASH EQUIVALENTS AT THE CLOSE OF THE YEAR** | | **1,557,647,014** | | 1,711,381,271 |
| Cash & Cash Equivalents include: | | | | |
| - Cash on Hand | | **45,816,836** | | 43,304,897 |
| - Cheque on Hand | | **228,934** | | 12,850,576 |
| Balance with Scheduled banks: | | | | |
| - In Curent Account | | **637,923,541** | | 928,416,263 |
| - In Fixed Deposit Account | | **871,672,453** | | 671,896,678 |
| Balances with bank held as margin money or security against borrowing, | | **2,005,250** | | 54,912,855 |
| | | **1,557,647,014** | | 1,711,381,271 |

**Note:**
Figures in brackets represent outflows.

**As per our report of even date attached**

**For & on behalf of the Board of Directors**

**For S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 01478N

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

**(SANDEEP DINODIA)**
Partner
M. No. 083689

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

Place: New Delhi
Date: 29th May, 2012

**Notes To The Consolidated Financial Statements For The Year Ended March 31, 2012**

**NOTE 1**

**Corporate Information**

Pearl Global Industries Limited (Formerly House of Pearl Fashion Limited) is a public limited company domiciled in India and incorporated under the provisions of the Companies Act,1956. The company along with its subsidiaries (collectively referred to as "the Group"), is primarily engaged in manufacturing, sourcing and export of ready to wear apparels through its domestic and global facilities and operations. It's shares are listed on BSE and NSE in India.

**NOTE 2**

**2.1 Basis of Preparation**

i) The consolidated financial statements of the Group have been prepared in compliance with Accounting Standards issued by the Companies (Accounting Standards) Rules,2006, the relevant provisions of the Companies Act, 1956 and guideline issued by the Security Exchange Board of India under the historical cost convention and on an accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) except investment available for sale and held for trading is measured at fair value and in case of the Pearl Global Industries Limited, where land and building are accounted for at revalued cost. However the financial statements of foreign subsidiaries have been prepared in compliance with the local laws and applicable accounting standards. Necessary adjustments for material variances in the accounting policies, wherever applicable, have been made in the consolidated financial statements.

ii) The Financial statements of all reporting entities under consolidation are drawn up to the financial year ended March 31, 2012.

iii) The accounting policies adopted for preparation of consolidated financial statements are consistent with those of previous year, except for the change in accounting policy explained para 2.3 (a) below.

**2.2 Uses of Estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires making of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets & liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Differences between the actual results and estimates are recognized in the year in which the results are known /materialized.

**2.3 Summary of Significant Accounting Policies**

**a. Change in Accounting Policy**

**Presentation and disclosure of financial statements**

During the financial year ended March 31, 2012, the revised Schedule VI notified under the Companies Act 1956, has become applicable to the company for preparation and presentation of its consolidated financial statements. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of consolidated financial statements. However, it has significant impact on presentation and disclosures made in the consolidated financial statements. Consequently, the figures of the previous year have been reclassified, regrouped and rearranged wherever necessary to make them comparable with those of the current year.

**b. Basis of Consolidation**

The consolidated financial statements have been prepared on the following basis.

i) The financial statements of the company and its subsidiary companies have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income, and expenses, after eliminating intra-group balances and intra-group transactions resulting in unrealized profits or losses.

ii) As far as possible, the consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the company's separate financial statements. Inconsistency, if any, between the accounting policies of the subsidiary, have been disclosed in the notes to accounts.

iii) The difference of the cost to the company of its investment in subsidiaries over its share in the equity of the investee company as at the date of acquisition of stake is recognized in financial statements as Goodwill or Capital Reserve, as the case may be.

iv) Minority interest in the Equity & Results of the entities that are controlled by the company is shown as a separate item in the Consolidated Financial Statement.

v) The Consolidated Financial Statements are presented, to the extent possible, in the same format as adopted by the parent company for its separate financial statement.

**c. The effect of Changes in Foreign Exchange Rates.**

**i) Translation of Financial Statements of Foreign Operations**

- In view of Accounting Standard-"11" 'Changes in Foreign Exchange Rates' issued by the Companies (Accounting Standards) Rules,2006, the operations of the foreign subsidiaries are identified as non integral subsidiaries of the company except one of the subsidiary is treated as integral, and translated into Indian Rupee.
- The Assets and Liabilities of Foreign operations, including Goodwill/Capital Reserve arising on consolidation, are translated in Indian Rupee (INR) at foreign exchange rate at closing rate ruling as at the balance sheet date. The Assets and Liabilities of Foreign operations, including Goodwill/Capital Reserve arising on consolidation, are translated in Indian Rupee (INR) at foreign exchange rate at closing rate ruling as at the balance sheet date.
- The revenue and expenses of foreign operations are translated in Indian Rupee (INR) at yearly average currency exchange rate, of the respective years.
- Foreign exchange differences arising on translation of "Non-integral Foreign Operations" are recognized as, 'foreign exchange translation reserve' in balance sheet under the head 'Reserve & Surplus and those of "Integral Foreign Operations" are recognized as Revenue and taken to Profit & Loss Account.

**ii) Foreign Currency Transactions**

- In case of parent company & its Indian subsidiaries sales made in foreign currencies are translated on average monthly exchange rate.
- In case of foreign subsidiaries the sales made in foreign currency are translated at the rate ruling at the date of transaction.
- Gain/Loss arising out of fluctuation in the exchange rate on settlement of the transaction is recognized in the profit and loss account.
- Other transactions in foreign currency are recognized on initial recognition at the exchange rate prevailing at the time of transaction.
- Foreign Currency monetary items are reported using the closing rate as on balance sheet date. The resultant exchange gain/loss is dealt with in profit & loss account.
- Premium or discount on forward contracts is amortized in the profit and loss account over the period of the contract. Exchange differences on such contracts are recognized in the statement of Profit and loss in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognized as income or as expense for the period.

**d. Inventories**

i) Inventories of traded goods are valued at lower of procurement cost (FIFO Method) or estimated net realizable value. Cost includes expenses incurred in acquiring the inventories and bringing them to their existing location and condition.

ii) Inventory of manufactured goods, WIP and raw material are valued at lower of cost (on weighted average basis) or net realizable value, except in case of foreign subsidiaries inventories are valued at lower of cost or net realizable value on FIFO basis. Cost includes an appropriate share of overheads.

**e. Cash Flow Statement**

Cash Flow is reported using the indirect method as specified in the Accounting Standard (AS)-3, `Cash Flow Statement' issued by the Companies (Accounting Standards) Rules, 2006.

**f. Revenue Recognition**

i) Revenue is recognized when significant risk and rewards of ownership transferred to the buyer.

ii) Export Sales is recognized on the basis of date of Airway Bill/Bill of Lading/ Forwarder Cargo receipt.

iii) Sales are shown net of sales return/rejection & trade discounts and include freight & insurance recovered from buyers as per terms of sales.

iv) Income from job work is recognized on the basis of proportionate completion method. However, where job work income is subject to Minimum Assured Profit, it is recognised based on that specific contract.

v) Interest income is recognized on an accrual on time proportion basis. In case of Multinational Textile Group Limited and its subsidiaries interest income is recognized on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of financial asset.

vi) Investment income is recognized as and when the right to receive the same is established.

vii) Handling Fee income is recognized in the period in which the services are rendered.

viii) Commission Income is recognized when the services are rendered.

ix) Dividend Income is recognized when the right to receive is established.

x) Sales in case of high sea sales are recognized on transfer of title of goods to the customer.

xi) Sale of software is recognized at the delivery of complete module & patches through transfer of code.

xii) The royalty income is recognized on accrual basis. The Company has a policy to recognize royalty income on accrual basis.

**g. Fixed Assets**

- Fixed Assets are stated at cost less accumulated depreciation except in case of Pearl Global Industries Limited; where land and building are measured at revalued cost. The cost comprises the purchase price/construction cost and any attributable cost including borrowing cost of bringing the asset to its working condition for its intended use. In the case of Multinational Textile Group Limited and its subsidiaries cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of fixed assets.
- Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.
- When parts of an item of an asset have different useful lives, they are accounted for as separate items (major components) of fixed assets.

**h. Depreciation**

- Depreciation on fixed asset is provided on Straight Line Method in accordance with and in the manner specified in the statute governing the respective companies. In case of Hopp Fashions (a Partnership Firm), depreciation on fixed assets have been provided on written down value (WDV) method, as prescribed under Income Tax Act, 1961.
- In case of Indian companies except Hopp Fashions (a Partnership firm) fixed assets costing up to Rs. 5,000 are depreciated fully in the year of purchase.
- Cost of Leasehold land is amortized over the period of lease.
- Software and Trademark is amortized over the period of 5 years which in the opinion of the management is the estimated economic life.

**i. Investments**

The investments are classified as follows:

**Held for trading :** Trading securities are those (both debt & equity) that are bought and held principally for the purpose of selling them in near term, such securities are value at fair value and gain/loss is recognized in the income statement.

**Held to Maturity :** Investment in debt & capital guard products are classified as held to maturity only if the company has the positive intent and ability to hold these securities to maturity, such securities are held at historical cost.

**Available-for-sale financial assets :** Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity & debt instruments that are designated as available for sale or are not classified in any of the other three categories, being investments at fair value through profit or loss for trading, loans and receivables and held-to-maturity investments. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, with gains or loss recognized as a separate component of equity as "Investment Revaluation Reserve" until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because, first the variability in the range of reasonable fair value estimates is significant for that investment or, secondly the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment.

**Fair value**

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date.

**j. Financial instruments and hedging**

The Company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at cost on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the profit & Loss Account.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

**Fair value hedges:** A hedge of the exposure to changes in the fair value of recognized asset or liability or an unrecognized firm commitment (except for foreign risk); or identified portion of such asset, liability or firm commitment (except for foreign risk), or an identified portion of such asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss.

Cash flow hedges: A hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognized directly in the equity, while the ineffective portion is recognized in the profit & loss account.

**k. Employee Benefits**

Except in case of Norp Knit Industries limited (one of the foreign subsidiary) where the retirement benefits plan has not been introduced, the following policy is applicable.

**I) Post Employment Benefit Plans**

i) Defined Contribution Plan: The Company's /state governed provident fund scheme, insurance scheme and employee pension scheme are defined contribution plans. Payments to Defined Contribution Retirements Benefit Schemes are charged as expenses when they fall due.

ii) Defined Benefit Schemes: The employee gratuity fund scheme, long-term compensated absences and provident fund scheme managed by trust are the Company's defined benefit plans. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognized in full in the profit and loss account for the period in which they occur. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight line basis over the average period until the benefit become vested. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

**II) Short Term Employee Benefits**

The undiscounted amount of short term employee benefits expected to be paid in exchange for the services rendered by employees is recognized during the period when the employee renders the service.

**l. Borrowing Cost**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

**m. Leases**

i) In respect of lease transactions entered into prior to April 1, 2001, lease rentals of assets acquired are charged to profit & loss account.

ii) Lease transactions entered into on or after April,1, 2001:

- Assets acquired under leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. Such assets are capitalized at the inception of the lease at the lower of the fair value or the present value of minimum lease payments and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period.

- Assets acquired under leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the profit & Loss Account on accrual basis.
- Assets leased out under operating leases are capitalized. Rental income is recognized on accrual basis over the lease term.

**n. Taxes On Income**

**I) Indian Companies**

- Income tax on the profit or loss for the year comprises current tax. The current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.
- The Deferred tax is recognized on timing differences; being the differences between taxable incomes and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.
- The Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognized if there is a virtual certainty that there will be sufficient future taxable income available to reverse such losses.

**II) Foreign Companies**

Foreign companies recognize tax liabilities and assets in accordance with applicable local laws.

**o. Impairment of Assets**

An asset other than inventories is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss is charged to the Profit & Loss Account in the year in which an asset is identified as impaired. The impairment loss recognized in prior accounting period is reversed if there has been a change in the estimate of recoverable amount.

**p. Provision, Contingent Liabilities and Contingent Assets**

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognized but are disclosed in the notes. Contingent assets are neither recognized nor disclosed in the financial statements.

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Note3 : Share capital** | | |
| **Authorised Share Capital** | | |
| 51,440,000 (March 31 2011: 24,990,000) Equity Shares of Rs.10/- each | **514,400,000** | 249,900,000 |
| 10,000 (March 31 2011: 10,000) 4 % - Non Cumulative Redeemable Preference Shares of Rs 10/- each fully paid up | **100,000** | 100,000 |
| 3,256,000 (March 31 2011: NIL) 10.5 % - Non Comulative Redeemable Preference Shares of Rs 100/- each | **325,600,000** | – |
| | **840,100,000** | 250,000,000 |
| **Issued, Subscribed & Paid-up Shares** | | |
| **Equity Share Capital** | | |
| 21,663,937 (March 31 2011: 19,500,343) Equity Shares of Rs. 10/- each fully paid up | **216,639,370** | 195,003,430 |
| **Total Issued, Subscribed & Paid-up Capital** | **216,639,370** | 195,003,430 |

**a. Reconciliation of the shares outstanding at the beginning and at the end of the reporting year**

| | March 31, 2012 | | March 31, 2011 | |
|---|---|---|---|---|
| Equity Shares | No. of shares | Amount | No. of shares | Amount |
| Balances of Shares at the begning of year | **19,500,343** | **195,003,430** | 19,500,343 | 195,003,430 |
| Add:- Addition during the year | **2,163,594** | **21,635,940** | – | – |
| Less:- Buy back during the year | **–** | **–** | – | – |
| Balances of Shares at the end of the year | **21,663,937** | **216,639,370** | 19,500,343 | 195,003,430 |

**b. Terms/rights attached to equity shares**

The company has only one class of equity shares having par value of Rs. 10 per share. Each holder of equity shares is entitled to one vote per share.

In the event of liquidation of the company, the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

**c. Details of shareholder holding more than 5 percent shares in the company**

(Amount in Rupees)

| | March 31, 2012 | | March 31, 2011 | |
|---|---|---|---|---|
| | No. of shares | % holding | No. of shares | % holding |
| Mrs. Payel Seth | **9,759,977** | **45.05** | 9,067,071 | 46.50 |
| Mr. Deepak Seth | **1,544,499** | **7.13** | 1,230,686 | 6.31 |
| Mr. Pulkit Seth | **1,511,384** | **6.98** | 1,310,337 | 6.72 |
| Mr. Pallak Seth | **1,317,646** | **6.08** | 1,306,904 | 6.70 |

**d. For a period of 5 years immediately preceeding the date of Balance sheet:-**

(Amount in Rupees)

| | No. of Shares | No. of Shares |
|---|---|---|
| **(a) Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.** | | |
| (i) Equity Share Capital* | 2,163,594 | – |
| * Being shares issued to shareholders of Pearl Global Limited, subsidiary since merged with the company in terms of Scheme of Amalgamation | | |
| **(b) Aggregate number and class of shares allotted as fully paid up by way of bonus shares.** | | |
| (i) Equity Share Capital* | – | 9,313,358 |
| * Allotted on June 17, 2006 | | |
| | – | 9,313,358 |

**Note 4 : Reserves and surplus**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Share Premium Reserve** | | |
| Balances at the beginning of year | **2,714,855,707** | 2,714,855,707 |
| Add:- Addition during the year | **63,308,456** | – |
| Balances at the close of year | **2,778,164,164** | 2,714,855,707 |
| **Capital Reserve on Amalgamation** | | |
| Balances at the beginning of year | **3,715,105** | 3,715,105 |
| Add:- Addition during the year | **58,879,633** | – |
| Balances at the close of year | **62,594,738** | 3,715,105 |
| **Hedging Reserve (Refer Note 34)** | | |
| Balances at the beginning of year | **37,319,320** | 66,651,508 |
| Less:- Utilise during the year | **206,148,563** | 29,332,188 |
| Balances at the close of year | **(168,829,243)** | 37,319,320 |
| **Foreign Currency Translation Reserve** | | |
| Balances at the beginning of year | **(75,733,253)** | (69,916,847) |
| Add:- Addition during the year | **355,066,134** | – |
| Less:- Utilise during the year | **–** | 5,816,406 |
| Balances at the close of year | **279,332,881** | (75,733,253) |
| **Capital Reserve on Consolidation** | | |
| Balances at the beginning of year | **443,869,469** | 445,020,870 |
| Less:- Utilise during the year | **288,848,989** | 1,151,401 |
| Balances at the close of year | **155,020,480** | 443,869,469 |

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Capital Redemption Reserve** | | |
| Balances at the beginning of year | **2,233,337** | 2,233,337 |
| Add:- Addition during the year | **7,266,663** | – |
| Balances at the close of year | **9,500,000** | 2,233,337 |
| **Investment Reserve- Available for Sale** | | |
| Balances at the beginning of year | **(884,778)** | (1,088,311) |
| Add:- Addition during the year | **1,205,022** | 203,533 |
| Balances at the close of year | **320,244** | (884,778) |
| **Revaluation Reserve** | | |
| Balances at the beginning of year | **23,772,230** | 23,772,230 |
| Add:- Addition during the year | **15,524,625** | – |
| Balances at the close of year | **39,296,855** | 23,772,230 |
| **General Reserve** | | |
| Balances at the beginning of year | **33,222,959** | 33,222,959 |
| Add:- Addition during the year | **376,172,439** | – |
| Balances at the close of year | **409,395,398** | 33,222,959 |
| **Profit & Loss Account** | | |
| Balances at the beginning of year | **1,335,656,628** | 1,130,108,170 |
| Add/Less:- Transfer from minority to group on change in shareholding | **48,801,289** | 9,898,157 |
| Add/Less- Profit/(Loss) for the year | **314,900,466** | 195,650,301 |
| **Net Surplus in the statement of Profit and Loss** | **1,699,358,383** | 1,335,656,628 |
| **Total Reserves & Surplus** | **5,264,153,899** | 4,518,026,724 |

**Note 5 : Long-term borrowings**

(Amount in Rupees)

| | Non-current portion | | Current Maturities | |
|---|---|---|---|---|
| | March 31, 2012 | March 31, 2011 | March 31, 2012 | March 31, 2011 |
| **Term Loans (Secured)** | | | | |
| From Banks | | | | |
| - Term Loan | – | – | – | – |
| - Loan in Functional Currency* | 533,464,637 | 391,570,514 | 82,899,315 | 89,843,564 |
| From financial institutions | | | | |
| - Long Term maturities of Finance Lease Obligation | – | 3,245,120 | 3,245,120 | 6,916,993 |
| | 533,464,637 | 394,815,634 | 86,144,435 | 96,760,557 |
| Term Loan disclosed under "Other Current Liabilities" | – | – | 86,144,435 | 96,760,557 |
| Finance Lease Obligations disclosed under "Other Current Liabilities" (Refer Note 9) (Note 9) | | | 3,245,120 | 6,916,993 |
| | 533,464,637 | 394,815,634 | – | – |

**In case of Pearl Global Industries Limited (Holding company)**

a) Vehicle loans are secured against hypothecation of respective vehicles.

b) Term loan from Axis bank is secured by equitable mortgage on property situated at plot no. 21/13-X, Block-A, Naraina Industrial Area, Phase-II, New Delhi owned and guaranteed by the promoter directors of the company repayable Rs. 909,600 p.m. by January 2016.

c) Rupee term loan from UCO Bank is secured by exclusive first charge on the movable/ immovable assets purchased from proceeds of term loan (including exclusive charge on the superstructure built on land at D-6/III, Phase II, MEPZ, Chennai and first charge on immovable property situated at 446, Phase V, Udyog Vihar, Gurgaon, guaranteed by a promotor director and repayable quarterly Rs. 3,025,000 by January 2013.

d) Rupee term loan from Punjab National Bank is secured by exclusive charge on the movable/ immovable assets purchased from proceeds of term loan (including exclusive charge on the land & building located at Plot No.51, Sector 32, Gurgaon guaranteed by promotor director and repayable Rs. 5,000,000 quarterly by November 2015.

e) Rupee term loan & corporate loan from Yes Bank Ltd. are secured by first charge on movable assets of the company and exclusive charge on immovable property located at Plot No. 10; sector - 5, Growth center, Bawal and at Plot No. 751; sector 37-II, Pace City Gurgaon. During the year, the company has fully repaid all such loans with Yes Bank.

**In case of Multinational Textile Group Limited (Foreign subsidiary)**

**Norwest Industries Limited**

a) Bank mortgage loan secured by company's investment properties and guaranteed by a director and is repayable in 119 monthly equal installments which commenced on Sept. 2006 until August 2016.

b) Bank mortgage loan secured by company's investment properties and guaranteed by a director and is repayable in 120 monthly equal installments commenced on Sept. 2007.until Sept. 2017.

c) Term loan is secured by the pledge of certain insurance policies and guaranteed by a director and repayable in 83 equal monthly installments commenced on October 2010 until September 2017.

**Poeticgem Limited**

a) GBP Long term loans from Barclays Bank are secured by a legal charge over the Freehold property at Teleflex plot, Burnleys, Kiln Farm, Milton Keynes and over the leasehold property at Flat 16, 15 Grosvenor Square, London, fixed and floating charges over the assets of the sub-subsidiary and a cross guarantee between Poeticgem Limited and its subsidiary Pacific Logistics Limited. The Loan is repayable at once by September 2015.

**Norp Knit Industries Limited**

a) BDT Term Loans from HSBC are secured by first charge over company's Plant and Machinery, Stocks of Raw Material, Work in Process, Finished Goods, book debts and receivables, charge over deposits and Standby Letter of Credit from Holding Company bearing repayable in 38 monthly varying installments until May 2015.

**Note 6 : Deferred Tax Liabilities/Asset**

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Deferred Tax Liabilities (Net)** | | |
| Fixed assets: Impact of difference between tax depreciation and depreciation/ amortization charged for the financial reporting | **22,548,942** | 22,899,244 |
| **Total** | **22,548,942** | 22,899,244 |
| **Deferred Tax Assets (Net)** | | |
| Impact of expenditure charged to the statement of profit and loss upto current year to be allowed for tax purposes on later years as under: | | |
| Business losses and unabsorbed depreciation | **35,244,518** | (21,970,937) |
| Capital losses | **41,669,912** | 59,839,997 |
| Others | **15,041,682** | 40,853,003 |
| **Total** | **91,956,112** | 78,722,063 |

**Note 7 : Provisions**

(Amount in Rupees)

| | Long Term | | Short Term | |
|---|---|---|---|---|
| | March 31, 2012 | March 31, 2011 | March 31, 2012 | March 31, 2011 |
| Provision for employee benefits | | | | |
| Gratuity (Refer Note 20) | **100,088** | 18,638,471 | **18,742,925** | 104,703 |
| Leave encashment | **11,209,970** | 1,786,795 | **672,576** | 9,731,773 |
| Employee Benefit | **–** | – | **8,703,288** | 5,205,654 |
| Other provisions | | | | |
| Provision for current tax [Net of advance tax] | **–** | – | **22,111,453** | – |
| | **11,310,058** | 20,425,266 | **50,230,241** | 15,042,130 |

Refer Note 26 for Contingent Liabilities and Provisions

**Note 8 : Short-term borrowings**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Loan From Banks (secured)** | | |
| Working Capital Loans | | |
| – Loan in functional currency | **3,378,596,091** | 3,308,359,096 |
| – Foreign Currency Loan | **417,350,672** | 633,610,427 |
| | **3,795,946,763** | 3,941,969,523 |

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Unsecured Borrowings** | | |
| – From Others | **18,302,332** | 11,025,138 |
| – Directors | **85,232,096** | 37,546,669 |
| | **103,534,428** | 48,571,807 |
| | **3,899,481,191** | 3,990,541,330 |

**In case of Pearl Global Industries Limited (Holding company)**

a) Working Capital Loans including bill discounting under consortium of Banks which are secured by first pari-passu charge on present and future movable fixed assets comprising vehicle, furniture and fixtures, disposable fixed assts, stocks of raw material, stocks in process, stores & spares, bill receivable & book debts, guaranteed by a promotor director of the company and mortgage of the properties situated at Plot No.H-597-603, RICCO Industrial Area, Bhiwadi, Alwar and Plot No.16-17, Phase-VI, Udyog Vihar, Gurgaon.

**Norwest Industries Limited**

a) The banking facilities are secured by way of Pledge of company's time deposit and marketable securities, Bank Guarantees aggregating Rs.92,088,000, guarantees from a fellow subsidiary and directors of the company and a related party and Companys' insurance deposits.

**Poeticgem Limited**

a) Bank loans are secured by a legal charge over the Freehold property at Teleflex plot, Burnleys, Kiln Farm, Milton Keynes and over the leasehold property at Flat 16, 15 Grosvenor Square, London, fixed and floating charges over the assets of the sub-subsidiary and a cross guarantee between Poeticgem Limited and its subsidiary Pacific Logistics Limited.

**Norp Knit Industries Limited**

a) Bank Loans are secured by first charge over company's Plant and Machinery, Stocks of Raw Material, Work in Process, Finished Goods, book debts and receivables, charge over deposits and Standby Letter of Credit from Holding Company.

**PT Norwest Industry**

The Bank loan facilities are secured by the Group's machineries and equipments, inventories, trade receivables together with corporate guarantee from ultimate holding company.

**Loan from others**

**Loan from others are payable on demand, taken during ordinary course of business.**

**Loan from Directors**

Loan from directors are payable on demand, taken during ordinary course of business.

**Note 9 : Other current liabilities**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Trade Payables*** | **2,620,625,621** | 1,977,705,256 |
| Other liabilities: | | |
| Current maturities of long-term borrowings (Refer note 5) | **82,899,315** | 89,843,564 |
| Current maturities of finance lease obligations | **3,245,120** | 6,916,993 |
| Unpaid dividends** | **946,025** | 949,211 |
| Others: | | |
| Other payables | **663,413,313** | 419,031,042 |
| | **750,503,773** | 516,740,810 |
| | **3,371,129,394** | 2,494,446,065 |

* The Company has not received infromation from vendors regarding their status under Micro, Small and Medium Enterprises Devlopment Act,2006 and hence disclosure relating to amounts unpaid as at the year end together with interest paid/payable under this Act have not been given.

** It does not include any amount due to be transferred to Investor Education and Protection Fund.

**Note 9.1 : Other Long Term Liabilities**

| | | |
|---|---|---|
| Others Liabilities | **128,738,847** | 46,336,993 |
| | **128,738,847** | 46,336,993 |

**NOTE 10 - FIXED ASSETS**

(Amount in rupees)

| PARTICULARS | GROSS BLOCK | | | | | DEPRECIATION | | | | | NET BLOCK AS ON | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As On 01.04.2011 | Additions | Deductions | Difference In Exchange | Total 31.03.2012 | As On 01.04.2011 | Additions | Deductions/ Adjustments | Difference In Exchange | Upto 31.03.2012 | 31.03.2012 | 31.03.2011 |
| **Tangible Assets** | | | | | | | | | | | | |
| Land Freehold | 213,160,067 | 2,996,400 | 3,091,884 | 1,190,887 | **214,255,470** | – | – | – | – | **–** | **214,255,470** | 213,160,067 |
| Land Leasehold | 16,642,027 | – | – | – | **16,642,027** | 2,422,606 | 431,978 | – | – | **2,854,583** | **13,787,444** | 14,219,421 |
| Builiding | 893,373,987 | 80,394,057 | 12,519,125 | 43,247,853 | **1,004,496,773** | 176,924,521 | 43,114,593 | 3,756,101 | 12,567,949 | **228,850,962** | **775,645,811** | 716,449,466 |
| Investment Property | 766,383,316 | – | – | 111,052,647 | **877,435,963** | 35,351,385 | 23,596,540 | – | 6,773,230 | **65,721,155** | **811,714,808** | 731,031,931 |
| Plant & Machinery | 1,131,755,095 | 42,479,483 | 66,278,062 | 30,307,842 | **1,138,264,358** | 445,832,407 | 82,800,427 | 18,105,047 | 21,763,205 | **532,290,991** | **605,973,367** | 685,922,687 |
| Vehicles | 120,113,855 | 11,574,684 | 18,485,830 | 8,417,221 | **121,619,931** | 49,395,800 | 17,096,900 | 7,577,492 | 4,883,804 | **63,799,012** | **57,820,918** | 70,718,055 |
| Furniture & Fixtures | 306,422,559 | 58,605,604 | 308,555 | 24,389,539 | **389,109,147** | 176,457,430 | 47,645,564 | 62,959 | 20,365,014 | **244,405,048** | **144,704,099** | 129,965,129 |
| **Total** | 3,447,850,905 | 196,050,228 | 100,683,455 | 218,605,990 | **3,761,823,668** | 886,384,148 | 214,686,002 | 29,501,600 | 66,353,202 | **1,137,921,752** | **2,623,901,916** | 2,561,466,757 |
| **Intangible Assets** | | | | | | | | | | | | |
| Goodwill | 424,528,355 | 36,415,710 | – | 40,704,875 | **501,648,940** | – | – | – | – | **–** | **501,648,940** | 424,528,355 |
| Software | 185,092,822 | 8,272,956 | 3,333,209 | – | **190,032,569** | 60,015,665 | 36,784,628 | 1,536,064 | – | **95,264,230** | **94,768,339** | 125,077,157 |
| Trade Mark | 6,456,525 | 505,358 | – | 941,366 | **7,903,249** | 5,832,840 | 114,169 | – | 859,254 | **6,806,262** | **1,096,987** | 623,685 |
| **Total** | 616,077,702 | 45,194,025 | 3,333,209 | 41,646,241 | **699,584,758** | 65,848,505 | 36,898,797 | 1,536,064 | 859,254 | **102,070,492** | **597,514,266** | 550,229,197 |
| Capital Work-in- progress | 47,332,563 | 135,413,883 | 67,987,605 | 121,413 | **114,880,254** | – | – | – | – | **–** | **114,880,254** | 47,332,563 |
| | 47,332,563 | 135,413,883 | 67,987,605 | 121,413 | **114,880,254** | – | – | – | – | **–** | **114,880,254** | 47,332,563 |
| **Grand Total** | 4,111,261,170 | 376,658,135 | 172,004,270 | 260,373,644 | **4,576,288,680** | 952,232,653 | 251,584,799 | 31,037,664 | 67,212,456 | **1,239,992,244** | **3,336,296,436** | 3,159,028,517 |
| Previous Year | 3,455,292,449 | 1,460,546,229 | 792,326,229 | (12,252,266) | **4,111,260,170** | 836,337,808 | 244,884,146 | 113,135,506 | (15,853,795) | **952,232,653** | **3,159,027,517** | 2,618,954,641 |

1. CWIP includes pre-operative expenses of Rs. 4,185,753 (Previous year : 3,874,753)
2. During last year, the company had initiated the process of converting its leasehold land into freehold land.
3. Opening balance of land includes Rs.45,229,131 on account of revaluation on 31.03.2002.
4. Opening balance of building includes Rs.5,932,276 on account of reduction in revaluation on 31.03.2002.
5. Capital work in progress include Rs. Nil (Previous Year 10,104,849 ) being borrowing cost capitalised in accordance with Accounting Standard AS-16 on "Borrowing Cost" as specified in the Companies Accounting Standard Rules 2006.
6. The above includes the amount of Land of Rs, 15,954,319 & Building of Rs. 14,890,483 situated at Narshingpur, Tehsil District gurgaon for which the company has executed an agreement for the construction of commercial project with DLF Retail Developers Ltd. on 30th November,2007. However, as certified by the management, the work has not strarted during the financial year 2011-12.

**Note 11 : Investments**

(Amount in Rupees)

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| **Non- Current Investment** | | |
| **Non-trade investments (Valued at Cost,unless stated otherwise)** | | |
| **Investments in Equity shares(Unquoted)** | | |
| GWD Enterprises | **40,931,563** | 35,723,051 |
| 100 A Shares and 25 B Shares ( March 31, 2011: 100 A Shares and 25 B Shares) of GBP 1 each | | |
| Premier Fashion Garment Joint Stock | **–** | 10,860,443 |
| Nil Equity Shares ( March 31, 2011: 28,728 Shares) of VND100,000 each | | |
| India Infrastructure Opportunities LLP | **29,046,686** | – |
| 546.20 Shares of $ 1,036.62 each (March 31, 2011: Nil) | | |
| Juhu Exchange Limied | **16,401,896** | – |
| 200,000 Preference Shares (March 31, 2011: Nil) of GBP 1 each | | |
| **Investments in Govt. securities** | | |
| National Saving Certificate ( Pledged with Sales Tax Authority ) | **4,000** | 4,000 |
| | **86,384,145** | 46,587,494 |
| **Current Investment** | | |
| **Investment in Mutual Fund** | | |
| Reliance Regular Savings Fund-Debt Plan-Growth Option | **–** | 1,049,724 |
| Nil Units ( March 31, 2011: 79,216.71 Units ) of Rs. 13.25 each | | |
| Principal Emerging Blue Chip Fund-Regular Growth Plan | **–** | 594,856 |
| Nil Units ( March 31, 2011: 20498.13 ) of Rs. 29.02 each | | |
| Principal Monthly Income Plan-Dividend Payout Monthly | **–** | 480,469 |
| Nil Units (March 31, 2011: 45,325.16 Units) of Rs. 10.60/- each | | |
| Investment in Unit Trusts | **12,905,837** | 15,152,776 |
| India Infrastructure | **–** | 19,559,169 |
| | **12,905,837** | 36,836,994 |
| | **99,289,981** | 83,424,488 |

Aggregate book value of quoted investment is Rs. Nil (P.Y. Rs. Nil)

Aggregate market value of quoted investment is Rs. Nil (P.Y. Rs. Nil)

Aggregate amount of Unquoted investment is Rs. 99,289,981 (P.Y. Rs. 83,424,488)

**Note 12 : Loans and Advances**

(Amount in Rupees)

| | Non-current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| **Capital Advances** | | | | |
| Unsecured, considered good * | **3,518,281** | 16,249,672 | **–** | – |
| **Security Deposits** | | | | |
| Secured, considered good | **44,421,265** | 41,742,531 | **–** | – |
| **Loan and advances to related parties** | | | | |
| Unsecured - Considered Good | **181,425,180** | 424,444,397 | **–** | – |
| **Share Application Money** | **–** | 63,121,869 | **–** | – |
| **Advances Recoverable in cash or kind** | | | | |
| Advance Recoverable in cash or in Kind | | | | |
| -Unsecured - Considered Good | **38,351,443** | 25,116,555 | **–** | – |
| -Unsecured - Considered Doubtful | **480,000** | – | **–** | – |
| | **38,831,443** | 25,116,555 | **–** | – |
| Less: Provision for Doubtful advances | **480,000** | – | **–** | – |
| | **38,351,443** | 25,116,555 | **–** | – |

(Amount in Rupees)

| | Non-current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| **Other Loans and Advances** | | | | |
| Advance Tax [Net of provisions] | **–** | 3,306,796 | **–** | – |
| MAT Credit Entitlement | **18,150,899** | – | **–** | – |
| Advance Rent | **75,456,420** | – | **–** | – |
| Other Advances | **23,576,482** | – | **572,930,305** | 551,121,146 |
| | **117,183,801** | 3,306,796 | **572,930,305** | 551,121,146 |
| | **384,899,970** | 573,981,820 | **572,930,305** | 551,121,146 |

* Capital Advance includes Rs. 326,583 paid to DDA for converting its leasehold land into freehold land.

**Note 13 : Inventories**

(Amount in Rupees)

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| Raw materials | **479,192,212** | 718,421,081 |
| Goods in Transit (Raw Material) | **–** | 417,145 |
| Work In Progress | **889,027,885** | 581,662,876 |
| Finished goods | | |
| - Manufacturing (Garments) | **689,224,660** | 794,718,989 |
| - Goods in Transit (Finished Goods) | **78,911,447** | 39,053,828 |
| Traded goods | **351,589,925** | 278,827,053 |
| Stores and spares | **7,937,515** | 11,970,025 |
| | **2,495,883,643** | 2,425,070,997 |

**Note 14 : Trade receivable and other assets**

**14.1 Trade Receivables**

(Amount in Rupees)

| | Non-current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| Outstanding for the period exceeding six months from the date they are due for payment | | | | |
| Secured, considered good | **–** | – | **–** | – |
| Unsecured, considered good | **21,040,849** | – | **125,831,618** | 92,381,099 |
| Unsecured,considered Doubtful | **18,723,475** | – | **578,893** | |
| | **39,764,324** | | **126,410,511** | 92,381,099 |
| Less: Provision for doubtful recievables | **18,723,475** | – | **578,893** | – |
| | **21,040,849** | – | **125,831,618** | 92,381,099 |
| Amount disclosed under non-current assets | **21,040,849** | – | **–** | – |
| (Refer Note 14.2) | **–** | – | **125,831,618** | 92,381,099 |
| Amounts due by firms in which any director is a partner | | | | |
| Unsecured - Considered Good | **–** | – | **22,060,991** | 32,538,398 |
| | **–** | – | **22,060,991** | 32,538,398 |
| **Other recievables** | | | | |
| Unsecured, considered good | **–** | – | **4,940,692,680** | 3,390,831,615 |
| Unsecured - Considered Doubtful | **–** | – | **5,116,000** | – |
| | **–** | – | **4,945,808,680** | 3,390,831,615 |
| Less: Provision for Doubtful Debt | **–** | – | **5,116,000** | – |
| | **–** | – | **4,940,692,680** | 3,390,831,615 |
| | **–** | – | **5,088,585,288** | 3,515,751,112 |

**14.2 Other assets**

(Amount in Rupees)

| | Non-current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| Unsecured, considered good unless stated otherwise | | | | |
| Non-current bank balances | **18,574,420** | 14,775,614 | **–** | – |
| (Refer Note 15) | | | | |
| Long Term Trade Receivables | **21,040,849** | – | **–** | – |
| Others | | | | |
| Interest accrued but not due | **1,431,269** | – | **5,651,008** | 35,082,234 |
| Export incentive recoverable | **–** | – | **110,732,965** | 65,334,884 |
| | **41,046,537** | 14,775,614 | **116,383,973** | 100,417,118 |

**Note 15 : Cash and bank balances**

(Amount in Rupees)

| | Non-current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| **Cash and Cash Equivalents** | | | | |
| Balances with Banks:- | | | | |
| On current accounts | **–** | – | **637,923,541** | 928,416,263 |
| Cheques, Drafts on hand | **–** | – | **228,934** | 12,850,576 |
| Cash on hand | **–** | – | **45,816,836** | 43,304,897 |
| | **–** | – | **683,969,311** | 984,571,737 |
| **Other Balances** | | | | |
| Balance with bank | | | | |
| Deposits with original maturity of more than twelve months | **18,574,420** | 14,775,614 | **–** | – |
| Deposits with original maturity for more than 3 months but less than 12 months | **–** | – | **871,672,453** | 671,896,678 |
| Balances with bank held as margin money or security against borrowing, | **–** | – | **2,005,250** | 54,912,855 |
| | **18,574,420** | 14,775,614 | **873,677,703** | 726,809,533 |
| Amount disclosed under non-current assets (Refer Note 14.2) | **(18,574,420)** | (14,775,614) | **–** | – |
| | **–** | – | **1,557,647,014** | 1,711,381,271 |

a. Deposits of Rs.877,933,968 (March 31 2011: Rs. 642,108,198) are pledged as security with various banks.

**Note 16 : Revenue from operations**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Sale of Products | **27,505,767,614** | 22,069,010,496 |
| Export Incentives | **255,515,249** | 251,666,209 |
| Job Receipts | **63,135,105** | – |
| Other operating revenues | **160,492,665** | 189,633,596 |
| Revenue from operations(net) | **27,984,910,633** | 22,510,310,300 |

**Note 17 : Other Income**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Interest on Fixed deposits | **23,671,936** | 18,663,008 |
| Interest others | **24,410,149** | 27,812,989 |
| Rental Income | **35,463,175** | 18,826,951 |
| Dividend From Non Trade Investments | **7,575** | 175,492 |
| Foreign Exchange Fluctuation | **6,898,147** | 343,513,205 |
| Miscellaneous Income | **64,009,413** | 84,059,626 |
| | **154,460,395** | 493,051,271 |

**Note 18 : Cost of raw material consumed**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Inventory at the beginning of the year | **714,708,792** | 519,989,369 |
| Effect of Exchange Difference on Reinstatement of Opening Stock | **(2,175,453)** | (3,594,424) |
| Add: Purchases | **2,591,861,729** | 2,779,261,241 |
| Less: Cost of Goods Sold | **112,742,846** | 115,884,724 |
| | **3,191,652,221** | 3,179,771,462 |
| Less: Inventory at the end of the year | **471,415,544** | 714,708,792 |
| Cost of materials consumed | **2,720,236,677** | 2,465,062,670 |

**Note 19 : Increase/(decrease) in inventories**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| **Changes in inventories of finished goods** | | |
| Opening Stock | **960,953,963** | 816,876,249 |
| Effect of Exchange Difference on Reinstatement of Opening Stock | **7,177,825** | (15,490,048) |
| Less Closing Stock | **901,430,885** | 960,953,963 |
| | **66,700,903** | (159,567,762) |
| **Changes in inventories of work-in-progress** | | |
| Opening Stock | **199,968,105** | 156,384,447 |
| Effect of Exchange Difference on Reinstatement of Opening Stock | **(2,146,524)** | (2,800,316) |
| Less Closing Stock | **238,739,011** | 199,968,105 |
| | **(40,917,430)** | (46,383,974) |
| | **25,783,472** | (205,951,736) |
| **Details of purchase of traded goods** | | |
| Garments | **18,353,826,256** | 14,044,998,526 |
| | **18,353,826,256** | 14,044,998,526 |

**Note 20 : Employee Benefit Expense**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Salaries, wages and bonus | **2,209,566,840** | 1,956,702,157 |
| Contribution to Provident and other funds | **108,967,465** | 123,451,011 |
| Gratuity | **6,873,673** | 5,905,676 |
| Staff Welfare Expenses | **37,207,677** | 37,097,308 |
| | **2,362,615,655** | 2,123,156,151 |

**Employees Benefits (In the case of Indian Companies)**

The company has classified the various benefits provided to employees as under:

**(i) Defined Contribution Plan**

The company makes contribution towards provident fund to a defined contribution retirement benefit plan for qualifying employees. The provident fund plan is operated by the Regional Provident fund commissioner and the company is required to contribute a specified percentage of payroll cost to the retirement benefit schemes to fund the benefits.

The company recognized Rs. 20,239,167.44 (Previous Year: Rs. 24,068,826) for provident fund contributions in the profit and loss account. The contribution payable to these plans by the company are at rates specified in the rules of the schemes.

**(ii) Defined Benefit Plan**

The present value of obligation is determined based on actuarial valuation using the Projected Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligations. In the case of Pearl Global Industries Limited (except Chennai Unit), the employees gratuity scheme is managed by Life Insurance Corporation. The obligation for leave encashment is recognized in the same manner as gratuity.

(a) **Reconciliation of opening and closing balances of Defined Benefit Obligations**

(Amount in Rupees)

| Particulars | Current Year | | | Previous Year | | |
|---|---|---|---|---|---|---|
| | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** |
| Defined benefit obligations at beginning of the year | 23,414,015 | 5,442,441 | 11,518,568 | 20,180,968 | 4,058,861 | 10,360,260 |
| Current Service Cost | 5,489,400 | 1,768,778 | 3,957,336 | 4,404,963 | 2,242,022 | 4,460,794 |
| Interest Cost | 1,873,121 | 462,607 | 979,079 | 1,614,478 | 308,515 | 808,220 |
| Actuarial (gain)/loss | 28,037 | (1,669,761) | 3,278,059 | (808,335) | (947,015) | 952,074 |
| Benefits paid | (7,188,551) | (1,185,852) | (7,850,498) | (1,417,191) | (219,942) | (5,062,780) |
| Defined Benefit Obligations at year end | 23,616,022 | 4,818,213 | 11,882,544 | 23,974,883 | 5,442,441 | 11,518,568 |

(b) **Reconciliation of opening and closing balances of fair value of plan assets**

(Amount in Rupees)

| **Particulars** | Current Year | | | Previous Year | | |
|---|---|---|---|---|---|---|
| | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** |
| Fair value of plan assets at beginning of the year | 10,674,150 | – | – | 10,003,755 | – | – |
| Expected Return on plan assets | 1,078,509 | – | – | 832,890 | – | – |
| Contribution | 5,027,114 | – | – | 1,178,634 | – | – |
| Actuarial (gain)/loss | – | – | – | 76,062 | – | – |
| Benefits paid | (7,188,551) | – | – | (1,417,191) | – | – |
| Fair value of plan assets at the year end. | 9,591,222 | – | – | 10,674,150 | – | – |

(c) **Reconciliation of fair value of assets and obligations**

(Amount in Rupees)

| **Particulars** | Current Year | | | Previous Year | | |
|---|---|---|---|---|---|---|
| | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** |
| Fair value of plan assets at 31st March 2012 | 9,591,222 | – | – | 10,674,150 | – | – |
| Present value of obligation as at 31st March 2012 | 23,616,022 | 4,818,213 | 11,882,544 | 23,974,883 | 5,442,441 | 11,518,568 |
| Net Assets/(Liability) recognized in balance sheet | (14,024,800) | (4,818,213) | (11,882,544) | (13,300,733) | (5,442,441) | (11,518,568) |

(d) **Expenses recognized during the year**

(Amount in Rupees)

| **Particulars** | Current Year | | | Previous Year | | |
|---|---|---|---|---|---|---|
| | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** |
| Current Service Cost | 5,489,400 | 1,768,778 | 3,957,336 | 4,404,963 | 2,242,022 | 4,460,794 |
| Interest Cost | 1,873,121 | 462,607 | 979,079 | 1,614,478 | 308,515 | 808,220 |
| Expected return on plan assets | (1,078,509) | – | – | (832,890) | – | – |
| Actuarial (gain)/loss | 28,037 | (1,669,761) | 3,278,059 | (884,397) | (947,015) | 952,074 |
| Net Cost | 6,312,049 | 561,624 | 8,214,474 | 4,302,154 | 1,603,522 | 6,221,088 |

(e) **Actuarial Assumptions:**

(Amount in Rupees)

| **Particulars** | Current Year | | | Previous Year | | |
|---|---|---|---|---|---|---|
| | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** | **Gratuity (Funded)** | **Gratuity (Unfunded)** | **Earned leave (Unfunded)** |
| Discount Rate (per annum) | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% |
| Future increase in compensation | | | | | | |
| Pearl Global Industries Limited (Account I) (Holding Company) | 5.50% | – | 5.50% | 5.50% | – | 5.50% |
| Pearl Global Industries Limited (Account II) (Holding Company) | 6.00% | 5.50% | 5.50% | 6.00% | 5.50% | 5.50% |
| Lerros Fashions India Ltd. (Subsidiary) | 0 | 5.00% | 5.00% | – | 5.00% | 5.00% |
| Hopp Fashion (Associates) | 0 | 5.50% | 5.50% | – | 5.50% | 5.50% |
| Expected rate of return on plan assets | 8.00% | N.A | N.A | 8.00% | N.A | N.A |
| In Service Mortality | L.I.C 1994-96 Ultimate | L.I.C 1994-96 duly modified | L.I.C 1994-96 duly modified | L.I.C 1994-96 Ultimate | L.I.C 1994-96 duly modified | L.I.C 1994-96 duly modified |
| Retirement age | 58 Years | 58 Years | 58 Years | 58 Years | 58 Years | 58 Years |

**In the case of Pearl Global ( HK ) Limited and its subsidiary**

**PT Norwest Industry (subsidiary):**

The subsidiary provides benefits for its employees who achieve the retirement age at 55 based on the provisions of Labour Law no 13/2003 dated 25th March, 2003. The benefits are unfunded:

As of 31 March 2012 and 2011, employee benefits obligation is calculated by an independent actuary (PT. Bumi Dharma Aktuaria) under Project unit credited valuation method in their report dated April 05, 2012 and April 19, 2011

The principal assumptions used in determining employee benefits obligation as of 31 March 2012 and 2011 are as follows:

| **Financial Assumptions** | **2012** | 2011 |
|---|---|---|
| Discount Rate | **7%** | 10.50% |
| Future Salary Increase | **8%** | 8% |
| **Other Assumptions** | | |
| Morality rate | **CSO'88** | CSO'88 |
| Disability rate | **10%** | 10% |
| Normal retirement age | **55 years** | 55 years |

Voluntary resignation determined of 2% - 37% for employee before the age of 20-22 and will linearly decreased until 0% at the age of 54

Past service cost – non vested:

- Amortization method: straight line.

- Amortization method: the average period until the benefits becomes vested.

The amounts of employee benefits obligations recognized in the consolidated balance sheet were determined as follows:

| **Amount Recognized in Balance Sheet** | **2011-12** | 2010-11 |
|---|---|---|
| Present value of obligation | **8,703,288** | 4,435,263 |
| Unrecognized Actuarial Losses | **–** | 770,391 |
| Net Liability in Balance Sheet | **8,703,288** | 5,205,654 |

| **Amount Recognized in Income Statement** | **Current Year** | Previous Year |
|---|---|---|
| Current Service Cost | **2,786,758** | 1,166,666 |
| Interest Cost | **435,242** | 414,231 |
| Net Amortization for the year | **–** | – |
| Expenses recognized in the Income Statement | **3,222,000** | 1,580,897 |

| **Movement in the liability recognized in Balance sheet** | **Current Year** | Previous Year |
|---|---|---|
| At beginning of the year | **5,205,654** | 3,688,137 |
| Charge to Income statement | **3,222,000** | 1,580,897 |
| Actual Benefit Paid | **(699,050)** | – |
| Foreign Currency Translation Reserve | **974,684** | (63,380) |
| **At the end of the year** | **8,703,288** | 5,205,654 |

**Note 21 : Finance Cost**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Interest Expense | **293,996,697** | 275,849,424 |
| Factoring Charges | **7,456,115** | 5,240,377 |
| Bank charges | **221,708,305** | 144,432,039 |
| | **523,161,117** | 425,521,840 |

**Note 22 : Other Expenses**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Manufacturing Expenses | **1,105,685,060** | 1,437,046,564 |
| Consumption of Stores & Spare Parts | **60,583,340** | 88,386,865 |
| Selling & Marketing Exp. | **332,845,556** | 174,503,121 |
| Power & Fuel | **117,649,721** | 136,669,106 |
| Rent | **166,639,080** | 153,757,745 |
| Repair to buildings | **4,216,822** | 1,366,651 |
| Repair to machinery | **6,329,459** | 5,562,011 |
| Repair Others | **102,973,164** | 91,932,465 |
| Legal & Professional Charges | **443,884,878** | 328,089,444 |
| Payment to the Auditors (Refer details below) | **23,479,848** | 19,351,329 |
| Prior Period Items (Refer details below) | **(156,712)** | 5,497,840 |
| Other Expenses | **1,080,526,929** | 1,224,567,776 |
| | **3,444,657,144** | 3,666,730,918 |
| **a) Payment to Auditors** | | |
| **As Auditor:** | | |
| Audit Fees | **21,640,165** | 18,547,461 |
| Tax Audit Fees | **250,000** | 132,000 |
| **In other Capacity:** | | |
| Other Matters | **1,311,435** | 464,355 |
| Service Tax | **278,248** | 207,513 |
| | **23,479,848** | 19,351,329 |
| **b) Prior period Items** | | |
| Trade Discount | **(156,712)** | – |
| Selling Commission | **–** | 100.108 |
| Gratuity Expenses | **–** | 5,171,748 |
| Security Charges | **–** | 19,856 |
| Housekeeping & Cleaning | **–** | 16,812 |
| Printing & Stationery | **–** | 23,600 |
| Courier Charges - Local | **–** | 4,428 |
| Courier Charges - International | **–** | 144,743 |
| Telephone Expenses | **–** | 16,545 |
| | **(156,712)** | 5,497,840 |

**Note 23 : Exceptional Items**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Profit on sale of fixed assets | **24,342,176** | 20,027,992 |
| | **24,342,176** | 20,027,992 |

**Note 24 : Extra Ordinary Items**

(Amount in Rs.)

| | **For the year ended March 31, 2012** | For the year ended March 31, 2011 |
|---|---|---|
| Loss on disposal at sub-holding company | **15,249,748** | 60,058,033 |
| | **15,249,748** | 60,058,033 |

**Note 25: Earnings Per Share(EPS)**

(Amount in Rs.)

| | For the year ended March 31, 2012 | For the year ended March 31, 2011 |
|---|---|---|
| Profit/Loss attributable to the equity shareholders | **314,900,466** | 195,650,301 |
| Number/Weighted Average number of equity shares outstanding at the end of the year | **21,663,937** | 19,500,343 |
| Nominal value of equity shares | **10** | 10 |
| Basic/Diluted Earnings per share | **14.54** | 10.03 |

**Note 26. Contingent Liabilities and Commitments**

**a) Contingent Liabilities**

**In case of Pearl Global Industries Limited (Holding Company)**

1 Corporate Guarantee given by the company to UCO Bank, Hong Kong for securing trade finance limits to its step down subsidiary Norwest Industries Ltd, Hong Kong for HKD 300 million equivalent to Rs. 2,004,000,000/-& GBP 40 Million equivalent to Rs. 3,272,000,000/-( Previous Year: HKD 280 million equivalent to Rs.1,626,800,000 & GBP 30 Million equivalent to Rs.2,157,900,000 ).

2 Corporate Guarantee given by the company to HSBC Limited, Indonesia for securing credit facilities to its step down subsidiary PT Norwest Industry, Indonesia for USD 2,500,000/- equivalent to Rs. 127,900,000/- (Previous Year: USD 2,500,000/- equivalent to Rs. 111,625,000 ).

3 Corporate Guarantee given by the company to THE CIT GROUP / COMMERCIAL SERVICES INC, New York for working capital and letter of credit facilities to its wholly owned subsidiary M/s House of Pearl Fashions (US) Ltd for USD 400,000 equivalent to Rs. 20,464,000/- (Previous Year: USD 400,000 equivalent to Rs. 17,860,000).

4 Corporate Guarantee given by the company to HSBC, Hong Kong for HKD 330 Million, equivalent to Rs 2,204,400,000/- for securing credit facilities to its step down subsidiaries Norwest Industries Ltd., Simple Approach Ltd. and Zamira Fashion Ltd (Previous Year:- HKD 300 Million, equivalent to Rs. 1,743,000,000).

5 Corporate Guarantee given by the company to Standard Chartered Bank, Hong Kong for USD 25,800,000 equivalent to Rs. 1,319,928,000/- for securing credit facilities to its step down subsidiary Norwest Industries Ltd(Previous Year :USD 16,928,000 equivalent to Rs. 755,835,200).

6 Corporate guarantee given by the company to HSBC, Bangladesh for BDT 1,673,367,000 equivalent to Rs. 1,037,487,540/- for securing various credit facilities to its subsidiary Norp Knit Industries Ltd (Previous Year: BDT 889,760,000 equivalent to Rs. 542,753,600).

7 Corporate Guarantee given by the company to THE CIT GROUP / COMMERCIAL SERVICES INC, New York for credit facilities to its subsidiary Depa International Inc. merged with House of Pearl Fashions (US) Ltd, a wholly owned subsidiary for USD 1,000,000 equivalent to Rs. 51,160,000/- (Previous Year: 1,000,000 equivalent to Rs.44,650,000).

8 Corporate Guarantee given by the company to BNP Paribas, Hong Kong for letter of credit facility to its step down subsidiary Norwest Industries Ltd. for USD 8,500,000 equivalent to Rs. 43,486,000/- (Previous Year: USD 6,250,000 equivalent to Rs.279,062,500).

9 Corporate Guarantee given by the company to Canara Bank, Hong Kong Branch, for securing various credit facilities to its subsidiary Norwest Industries Ltd. for USD 15,000,000 equivalent to Rs. 767,400,000/-. (Previous Year: USD 3,000,000 equivalent to Rs. 133,950,000).

10 Corporate Guarantee given by the company to Bank of Baroda, Hongkong, for securing credit facilities to its step down subsidiary Simple Approach Ltd. for Nil (Previous Year: USD 4,000,000 equivalent to Rs.178,600,000 ). – EXPIRED ON 21.07.2011

11 Corporate Guarantee given by the company to Bank of Baroda, Hongkong, for securing credit facilities to its step down subsidiary Norwest Industries Ltd. for USD 15,000,000 equivalent to Rs. 767,400,000/-(Previous Year: USD 5,000,000 equivalent to Rs.223,250,000 ).

12 Corporate Guarantee given by the company to Bank of India, Hongkong Branch for securing credit facilities to its step down subsidiary Simple Approach Ltd. for USD 2,500,000 equivalent to Rs.127,900,000/-(Previous Year: USD 2,500,000 equivalent to Rs.111,625,000)

13 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Norwest Industries Ltd. for Nil (Previous year USD 18,000,000 equivalent to Rs.803,700,000) – Cancelled during the year

14 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Simple Approach Ltd. for Nil (Previous Year: USD 3,000,000 equivalent to Rs.133,950,000). –Cancelled during the year

15 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Zamira Fashion Ltd. for Nil. (Previous Year: USD 3,000,000 equivalent to Rs.133,950,000). –Cancelled during the year

16 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong, Branch for securing credit f acilities to its step down subsidiary Nor Lanka Manufacturing Ltd. for USD 6,000,000 equivalent to Rs. 306,960,000 (Previous Year: USD 6,000,000 equivalent to Rs.267,900,000 ).

17 Corporate Guarantee given by the company to ICICI Bank Limited, Hong Kong Branch, for securing the derivative limits to its step down subsidiary Norwest Industries Ltd. for USD 3,000,000 equivalent to Rs. 153,480,000 (Previous Year: NIL).

18 Corporate Guarantee given by the company to ICICI Bank Limited, Hong Kong Branch, for securing the credit limits to its step down subsidiary Norwest Industries Ltd. and Nor Lanka Manufacturing Limited for USD 15,000,000 equivalent to Rs. 767,400,000 (Previous Year: NIL).

19 Corporate Guarantee given by the company to Punjab National Bank, Hong Kong Branch, for securing the credit limits to its step down subsidiary Norwest Industries Ltd. for USD 30,000,000 equivalent to Rs. 1,534,800,000. (Previous Year: NIL).

20 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Norwest Industries Ltd. or Simple Approach Ltd. or Zamira Fashions Ltd, Hong Kong for USD 18,000,000 equivalent to Rs.920,880,000 (Previous Year: Nil).

21 Claims against the Company not acknowledged as debts and other matters Rs. 1,061,474 (Previous Year: Rs. NIL).

22 Export Bills Discounted with banks Rs. 380,521,957 (Previous Year Rs. 305,655,221).

23 Irrevocable letter of credit outstanding with banks Rs. 851,898,710 (Previous Year NIL)

24 Bank Guarantee given to government authorities Rs. 55,002,000 (Previous Year Rs. NIL).

25 Counter Guarantees given by the company to the Sales Tax Department for its associates company Rs.100,000 (Previous Year:NIL), for others Rs.50,000 (Previous Year:Rs. NIL).

**In case of Norp Knit Industries Limited (Foreign Subsidiary)**

The contingent liability of Norp Knit Industries Limited is Rs. 131,006,000 (Previous year Rs. 137,451,300) in respect of letters of credit outstanding and Rs.1,168,700 (Previous Year: 1,174,860) in respect of bank guarantee.

**In case of Multinational Textile Group Limited and its subsidiaries (Foreign subsidiary)**

At 31 March 2012, the sub-subsidiaries have the following Contingent Liabilities

**In case of Poeticgem Limited, UK (Foreign Subsidiary)**

a) The Sub-Subsidiary's banker, Royal Bank of Scotland plc have given a guarantee to H M Revenue & Customs amounting to Rs. 40,902,420 (Previous Year 42,955,086) on behalf of the Sub-subsidiary and to Allport Limited amounting to Rs.Nil (Previous year : 2,687,126 ). The maximum liability of Poeticgem Limited to the bankers is Nil (Previous Year: 88,597,298).

b) The Sub Subsidiary's bank has issued a letter of credit for Rs. Nil (Previous Year Rs. 561,957,622).

c) The sub-subsidiary has extended an unlimited guarantee on the banking facilities of its subsidiary company Pacific Logistics Limited. This guarantee is supported by a debenture dated 17thAugust 2005. The Sub-subsidiary's maximum contingent liability under the guarantee as at 31st March 2012 is Rs. Nil (Previous Year Rs. 4,149,458)

d) The Sub subsidiary has given an unlimited guarantee on the banking facilities of FX Import Company Limited. At the reporting date there was no contingent liability under this guarantee.

**In case of Norwest Industries Limited (Foreign Subsidiary)**

Guarantee given to banks in connection with facilities granted to subsidiaries and sub-subsidiaries Rs.1,598,340,004 (Previous Year Rs. 575,354,185).

**-FX Import Company Limited**

Royal Bank of Scotland plc, has provided a guarantee on behalf of company to H M Revenue and Customs amounting to Rs.12,270,726 (Previous Year: 10,738,772). Under this guarantee the maximum liability as at 31st March 2012 is Rs. 12,270,726 (Previous Year: Rs. 10,738,772).

**-Pacific Logistics Limited**

Royal Bank of Scotland plc, has provided a guarantee on behalf of company to H M Revenue and Customs amounting to Rs.6,135,363 (Previous Year: 5,369,386). Under this guarantee the maximum liability as at 31st March 2012 is Rs. 6,135,363 (Previous Year: Rs. 5,369,386).

Company has also extended an unlimited guarantee on the banking facilities of its parent company Poeticgem Limited. This guarantee is supported by a debenture dated 17 August 2005.The Sub-subsidiary's maximum contingent liability under the guarantee as at 31 March 2012 is Rs.816,900,165 (Previous Year: Rs. 567,656,614).

**-Simple Approach Limited**

Contingent Liabilities related to Irrevocable letters of credit is Rs.785,359,206 (Previous Year Rs. 649,208,723) and shipping guarantee is Rs.5,313,938 (Previous Year : 4,242,643).

**-Zamira Fashion Limited**

Contingent Liabilities related to Irrevocable letters of credit is Rs.98,223,261 (Previous Year: Rs. 64,354,983).

**-Lerros Fashions India Limited**

**a) Contingent Liabilities**

(a) Claims against the company not acknowledged as debts:

i) The claim of Rs. 17,970,483 represent a counter claim including interest by one of the distributor against the company's claim of Rs. 9,979,426 plus interest pending under Arbitration.

ii) The claim of Rs. 128,202,834 represent a counter claim by one of the distributor, Numero Uno Company Limited (NUCL) against the Company's claim of Rs. 118,757,638 pending under Arbitration.

(b) Guarantees.

i) Sales Tax Liability of Rs. 880,192 against non-receipt of 'C' Form from a customer

**House of Pearl Fashion (US)Limited, U.S.A.**

Effective February 1, 2009, the company has entered into a license agreement with Geoffrey Beene, LLC to design, manufacture and sell certain men's apparel. This agreement expires on June 30, 2012. The agreement requires the company to make royalty payments based on specified percentages of net sales, as defined. In addition, the company is required to expend a specified percentage of net sales for advertising. For the years ended March 31, 2012 and 2011, the license and advertising fees amounted to approximately Rs.42,339,850 and Rs. 34,686,380 respectively.

At March 31, 2012 and 2011, the future minimum payments required under this agreement were as follows:

| | **March 31, 2012** | March 31, 2011 |
|---|---|---|
| No later than 1 year | **5,883,400** | 25,115,625 |
| | **5,883,400** | 25,115,625 |

**b) Commitments**

1. Estimated amount of contracts remaining to be executed on capital account (net of advances); Rs. 2,554,365 (March 31, 2011: Rs. Nil).

**Note 27 The Subsidiaries considered in the consolidated financial statements are:**

| Name of the Enterprises | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|
| Hopp Fashion (Partnership Firm) | India | **75.00%** | 75.00% |
| Norp Knit Industries Ltd. | Bangladesh | **99.99%** | 99.99% |
| Multinational Textile Group Ltd. | Mauritius | **100.00%** | 100.00% |
| House of Pearl Fashions (US) Ltd. (Remaining 23.07% held by a overseas Subsidiary Pearl Global (HK) Limited | USA | **76.93%** | 76.93% |
| Lerros Fashions India Ltd | India | **59.64%** | 59.55% |
| Pearl Global (HK ) Limited | Hong Kong | **100.00%** | – |
| Pearl Global Fareast Limited | Hong Kong | **100.00%** | – |
| PDS Multinational Fashions Limited | India | **100.00%** | 100.00% |

**Multinational Textiles Group Limited holds the following subsidiaries:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| Global Textiles Group Ltd. | 31.03.2006 | Mauritius | 100.00% | 100.00% |
| Norwest Industries Limited | 31.05.2006 | Hong Kong | 85.00% | 85.00% |
| Zamira Fashions Limited | 20.09.2007 | Hong Kong | 67.00% | 67.00% |
| PG Group Limited | 13.05.2008 | Hong Kong | 51.00% | 51.00% |
| Simple Approach Limited | 30.11.2008 | Hong Kong | 75.00% | 75.00% |
| PS Sourcing Limited | 29.07.2010 | Hong Kong | 51.00% | 51.00% |
| Nahata Limited | 21.02.2012 | UK | 100.00% | – |
| Nor Delhi Manufacturing Limited | 19.01.2009 | Hong Kong | 100.00% | 100.00% |
| Propur Investment Limited | 01.03.2012 | British Virgin Islands | 100.00% | – |
| Casa Forma Limited | 01.01.2012 | UK | 100.00% | – |
| SACB Holdings Limited | 24.03.2011 | Mauritius | 51.00% | 51.00% |

**Norwest Industries Ltd, holds the following subsidiaries**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| Nor Lanka Manufacturing Limited | 18.03.2009 | Hong Kong | **100.00%** | 100.00% |
| Nor India Manufacturing Co. Limited, Hongkong | 17.12.2010 | Hong Kong | **100.00%** | 100.00% |
| Grand Pearl Trading Limited | | China | **100.00%** | – |
| Nor Europe Manufacturing Co. Limited | 04.11.2011 | Hong Kong | **70.00%** | – |
| Sino West Manufacturing Co. Ltd. | 03.01.2012 | Hong Kong | **80.00%** | – |
| Spring Near East Manufacturing Co. Ltd. | | Hong Kong | **100.00%** | – |

**Global Textiles Group Limited holds the following subsidiaries:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| Poeticgem Limited | 30.03.2006 | UK | 100.00% | 100.00% |

**Poeticgem Limited holds the following subsidiaries:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| Pacific Logistics Limited | 27.10.2003 | UK | **100.00%** | 100.00% |
| Poeticgem (Canada) Limited | 31.08.2006 | Canada | **100.00%** | 100.00% |
| Pacific Supply Chain Limited* | 16.04.2007 | UK | **100.00%** | 100.00% |
| FX Imports Company Limited | 26.03.2008 | UK | **75.00%** | 50.00% |
| Poetic Knitwear Limited | 31.03.2009 | UK | **67.00%** | 67.00% |
| Razamtazz Limited | 23.03.2011 | Mauritius | **100.00%** | 100.00% |

**Zamira Fashions Limited holds the following subsidiary:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| Zamira Fashions Europe Ltd.* | 25.03.2009 | UK | **100.00%** | 100.00% |

**P G Group Limited holds the following subsidiary:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| PG Home Group Ltd. | 13.05.2008 | Hong Kong | **90.00%** | 90.00% |

**P G Home Group Limited holds the following subsidiary:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| Pearl Ges Home Group SPA | 31.07.2008 | Chile | **100.00%** | 100.00% |

**Nor Delhi Manufacturing Limited holds the following subsidiary:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| Magic Global Fashion Ltd.UK* | 23.01.2009 | UK | **100.00%** | 100.00% |

**FX Imports Company Limited holds the following subsidiary:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| FX Import Hong Kong Limited | 04.05.2009 | Hongkong | 100.00% | 100.00% |

**Pearl Global (HK) Limited holds the following subsidiary:**

| Name of the Company | Date of Acquisition | Country of Incorporation | % of voting power held as at 31.03.2012 | % of voting power held as at 31.03.2011 |
|---|---|---|---|---|
| PT Pinnacle Industry (Formerly PT Norwest Industry) | 01.04.2011 | Indonesia | 99.87% | 99.87%** |

*Company's closure application filed during the year.

** Held by Global Textiles Group Limited

**Note 28 Alignment of Accounting Policy for consolidation.**

a) In case of Multinational Textile Group Limited and its subsidiaries (hereinafter referred as foreign subsidiaries), interest income is recognized on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of financial asset. This is inconsistent with the policy of parent company and its Indian subsidiaries, where interest is recognized on time proportion basis. The interest income from foreign subsidiaries represents 23.98 % of total interest income (Previous Year: 28.75 %) of Rs. 48,082,086 (Previous Year: Rs. 46,475,997).

b) In the case of Multinational Textile Group Limited and its subsidiaries (hereinafter referred as foreign subsidiaries), cost of fixed assets also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of fixed assets. This is inconsistent with the policy of parent company and its Indian subsidiaries, where no such treatment is prescribed under the Indian GAAP. However, the net effect on fixed assets was Rs. 720,435 (Previous year Rs. 14,655,603).

c) In case of partnership firm Hopp fashions, the WDV method of depreciation (prescribed under Income Tax Act, 1961) was used, this is inconsistent with the SLM method of depreciation used in case of the parent and other subsidiaries. However as it is impractical & the amount is immaterial, no adjustment for the same has been made in the consolidated financial statements.

**The Net Block on WDV rates has been applied is as follows**

| S. No. | Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|---|
| 1 | Net Block | **752,312** | 847,584 |
| 2 | Depreciation on the basis of WDV debited to P&L A/c | **95,272** | 108,048 |

d) In case of foreign subsidiaries, sales made in foreign currency are translated at the rate ruling at the date of transaction, this is inconsistent with the policy of parent company and its Indian subsidiaries, where sales are recognized at monthly average exchange rate. The sales from foreign subsidiaries represents 78.74% (Previous Year : 70.79%) i.e. Rs 21,859,803,141 (Previous Year : Rs. 15,800,450,094) of total sales of Rs.27,761,282,863 (Previous Year : Rs. 22,320,676,704)

e) In case of foreign subsidiaries inventories of Manufactured Finished Goods, WIP and Raw Material are valued on FIFO basis, this is inconsistent with the policy of parent company and its Indian subsidiaries, where it is valued on weighted average method. The composition of inventories represents as follows :

| Particulars | Total Inventory | Foreign Subsidiaries inventory on FIFO Basis | % Of Total Inventory |
|---|---|---|---|
| Finished Goods | 689,224,660<br>(794,718,989) | 42,073,581<br>(58,955,282) | 6.1<br>(7.42) |
| WIP | 889,027,885<br>(581,662,876) | 763,278,636<br>(450,383,525) | 85.86<br>(77.43) |
| Raw Material | 479,192,212<br>(718,421,081) | 106,746,321<br>(66,517,341) | 22.28<br>(9.26) |

Note: Figures in brackets denotes previous year figure

**Note 29 Goodwill/(Capital Reserve) arising on acquisition of Subsidiaries**

| Company | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Pearl Global Limited* | – | (308,575,005) |
| Norp Knit Industries Limited | **33,555,837** | 33,555,837 |
| M/s Multinational Textiles Limited** | **263,408,458** | 206,013,800 |
| M/s Lerros Fashions India Ltd. | **49,664,215** | 49,664,215 |

* Goodwill/(Capital Reserve) arising on consolidation of Erstwhile Pearl Global Limited since merged with the Company.

** Goodwill/(Capital Reserve) arising on consolidation of Subsidiaries to Multinational Textiles Group Limited.

| Company | 31.03.2012 | 31.03.2011 |
|---|---|---|
| Global Textiles Group Ltd. | **132,988,834** | 116,066,310 |
| Norwest Industries Ltd | **(6,128,508)** | (5,348,670) |
| Poeticgem Ltd. | **(56,825,919)** | (49,594,974) |
| Depa International Inc. | **(10,151,171)** | (8,886,201) |
| PT Norwest Industries Ltd. | **–** | 10,613,662 |
| Pacific Logistic Ltd. | **(10,730,094)** | (9,364,695) |
| Poeticgem (Canada) Ltd | **1,319,672** | 1,151,741 |
| FX Imports UK | **56,634,887** | 50,003,222 |
| Pacific Supply Chain Ltd. | **–** | 26,701 |
| Simple Approach Ltd. | **116,123,121** | 101,346,704 |
| Casa Forma Limited | **40,177,636** | – |
| **Total** | **263,408,458** | 206,013,800 |

**Note 30 Scheme of Arrangement**

During the current year, consequent upon sanction of Scheme of Amalgamation of Pearl Global Limited (`Transferor Company`) with the Company ('Transferee Company'), as approved by the Hon'ble High Court of Delhi vide its Order dated 11th November, 2011 u/s 394 of the Companies Act, 1956 and necessary filing of said Order with the Registrar of Companies, NCT of Delhi & Haryana on 19th January, 2012 being the `Effective Date` when the scheme has become effective, the Transferor Company has been merged with the company and the financial statements of the merged company have been prepared in accordance with the relevant clauses of the said scheme as under:-

a) Upon the Scheme became effective, the entire business of Transferor Company including all property, assets and liabilities stand transferred to and vested in the Company with effect from 1st April 2010 being the "Appointed Date".

b) The amalgamation has been accounted for under the "pooling of interest" method as prescribed by the Accounting Standard (AS-14) of the Company (Accounting Standards) Rules, 2006. Accordingly, the assets, liabilities and reserves of transferor companies as at close of business on 31st March 2010 have been recorded in the company at the same values. There is no difference in Accounting Policies between transferor Company and the company; hence no material adjustments have been made.

c) The scheme inter alia provided for issuance of two fully paid up equity shares of face value of Rs. 10 each of Transferee Company to the share holders of Transferor Company for every three equity shares of face value of Rs. 10 each held in Transferor Company.

d) All inter-company balances between the Transferor Company and the company have been eliminated without any further obligations or rights in this behalf.

In view of the aforesaid amalgamation became effective during the current year, the previous year's figures of the company represent those of prior to the merger of Transferor Company. Therefore, the figures for the current year are not comparable with those of the previous year.

**Note 31 Segment Reporting**

For the year ended March 31, 2012, the company has identified geographical segments as its primary segment and business segment as its secondary segment.

The geographical segments of the company based on the location of assets are United Kingdom, Hong Kong, India and Others

The business segments considered by the Company are:

- Manufacturing
- Marketing, Distribution, Sourcing and Trading.
- Branding & Retailing

**A. Geographical Segment** (Amount in Rs.)

| | UK | Hong Kong | India | Others | Total | Elimination | Total |
|---|---|---|---|---|---|---|---|
| **SEGMENT REVENUE** | | | | | | | |
| Segment Sales | 1,441,095,539 | 18,316,106,392 | 5,901,479,722 | 2,102,601,211 | 27,761,282,863 | – | 27,761,282,863 |
| | (1,075,829,435) | (12,679,472,800) | (6,518,161,783) | (2,047,212,686) | (22,320,676,704) | – | (22,320,676,704) |
| Inter Segment Sales | - | 419,136,205 | 480,707,948 | 1,957,917,698 | 2,857,761,851 | 2,857,761,851 | – |
| | - | (483,158,431) | (159,060,594) | (1,005,292,862) | (1,647,511,887) | (1,647,511,887) | – |
| Total Segment Sales | 1,441,095,539 | 18,735,242,597 | 6,382,187,670 | 4,060,518,909 | 30,619,044,714 | 2,857,761,851 | 27,761,282,863 |
| | (1,075,829,435) | (13,162,631,231) | (6,677,222,378) | (3,052,505,549) | (23,968,188,592) | (1,647,511,887) | (22,320,676,704) |
| Other Income | 82,376,856 | 74,765,023 | 213,073,148 | 92,330,622 | 462,545,649 | 67,013,455 | 395,532,194 |
| | (93,865,801) | (263,834,568) | (335,636,202) | (80,033,595) | (773,370,166) | (449,468,009) | (323,902,157) |
| Total Segment Revenue | 1,523,472,394 | 18,810,007,620 | 6,595,260,818 | 4,152,849,531 | 31,081,590,363 | 2,924,775,306 | 28,156,815,057 |
| | (1,169,695,236) | (13,426,465,798) | (7,012,858,580) | (3,132,539,143) | (24,741,558,758) | (2,096,979,896) | (22,644,578,862) |
| Total Revenue of each segment as a percentage of total revenue of all segment | 4.90 | 60.52 | 21.22 | 13.36 | 100.00 | | |
| | (4.73) | (54.27) | (28.34) | (12.66) | (100.00) | | |
| Total Segment Operative Profit | 138,012,733 | 559,010,057 | 228,300,432 | 128,062,703 | 1,053,385,925 | – | 1,053,385,925 |
| | 7,532,704 | (455,481,764) | (276,353,056) | (84,587,633) | (808,889,749) | – | (808,889,749) |
| Depreciation | 28,861,985 | 51,153,291 | 104,102,337 | 67,353,016 | 251,470,630 | – | 251,470,630 |
| | (32,213,436) | (46,831,331) | (97,755,722) | (50,397,208) | (227,197,697) | – | (227,197,697) |
| Unallocated Expenses | | | | | | | 25,646,345 |
| | | | | | | | (28,958,478) |
| Total Segment Result before Interest & Taxes/ Extraordinary items | 109,150,748 | 507,856,765 | 124,198,095 | 60,709,687 | 801,915,295 | 25,646,345 | 776,268,950 |
| | 39,746,139 | (408,650,433) | (178,597,334) | (34,190,424) | (581,692,052) | (28,958,478) | (552,733,574) |
| Total EBIT of each segment as a percentage of total EBIT of all segment | 13.61 | 63.33 | 15.49 | 7.57 | 100.00 | | |
| | 6.83 | (70.25) | (30.70) | (5.88) | (100.00) | | |
| Net Financing Cost | | | | | | | 293,996,697 |
| | | | | | | | (275,849,424) |
| Income Tax Expenses | | | | | | | 81,539,280 |
| | | | | | | | 11,927,693 |
| Extraordinary Item | | | | | | | 15,249,748 |
| | | | | | | | (60,058,033) |
| Profit for the Year | | | | | | | 385,483,225 |
| | | | | | | | (228,753,810) |
| **SEGMENT ASSETS** | 1,303,879,526 | 5,861,622,418 | 4,340,135,722 | 2,789,770,152 | 14,295,407,818 | – | 14,295,407,818 |
| | (1,411,062,024) | (3,997,314,129) | (5,390,521,345) | (2,352,066,145) | (13,150,963,644) | – | (13,150,963,644) |
| Segment Assets as a percentage of Total assets of all segments | 9.12 | 41.00 | 30.36 | 19.52 | 100.00 | | |
| | (10.73) | (30.40) | (40.99) | (17.89) | (100.00) | | |
| **SEGMENT LIABILITIES** | 243,074,730 | 2,112,817,920 | 1,154,943,340 | 743,044,882 | 4,253,880,872 | – | 4,253,880,872 |
| | (686,327,603) | (956,376,034) | (1,065,946,855) | (739,859,076) | (3,448,509,569) | – | (3,448,509,569) |
| Segment Liabilities as a percentage of Total Liabilities of all segments | 5.71 | 49.67 | 27.15 | 17.47 | 100.00 | | |
| | (19.90) | (27.73) | (30.91) | (21.45) | (100.00) | | |
| Segment Capital Employed | 1,060,804,796 | 3,748,804,498 | 3,185,192,382 | 2,046,725,270 | 10,041,526,946 | – | 10,041,526,946 |
| | (724,734,421) | (3,040,938,095) | (4,324,574,490) | (1,612,207,069) | (9,702,454,075) | – | (9,702,454,075) |
| Segment Capital Employed as a percentage of Total capital employed of all segments | 10.56 | 37.33 | 31.72 | 20.38 | 100.00 | | |
| | (7.47) | (31.34) | (44.57) | (16.62) | (100.00) | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Capital Expenditure | 18,407,112 | 63,630,403 | 38,334,823 | 80,484,246 | 200,856,585 | – | 200,856,585 |
| | (15,159,389) | (57,701,508) | (56,176,013) | (7,438,861) | (136,475,771) | – | (136,475,771) |
| Segment Capital Expenditure as a percentage of Total capital expenditure of all segments | 9.16 | 31.68 | 19.09 | 40.07 | 100.00 | | |
| | (11.11) | (42.28) | (41.16) | (5.45) | (100.00) | | |
| Depreciation | 28,861,985 | 51,153,291 | 104,102,337 | 67,353,016 | 251,470,630 | – | 251,470,630 |
| | (32,213,436) | (46,831,331) | (97,755,722) | (50,397,208) | (227,197,697) | – | (227,197,697) |

**B. Business Segment**

(Amount in Rs.)

| | Manufacturing | Marketing Distribution Sourcing & Trading | Branding & Retailing | Total Segment | Elimination | Total |
|---|---|---|---|---|---|---|
| **SEGMENT REVENUE** | | | | | | |
| External Sales | 6,756,354,978 | 21,006,216,045 | (1,288,160) | 27,761,282,863 | – | 27,761,282,863 |
| | (7,389,061,802) | (14,922,219,471) | (9,395,432) | (22,320,676,704) | – | (22,320,676,704) |
| Inter Segment Sales | 2,067,052,513 | 790,709,338 | – | 2,857,761,851 | 2,857,761,851 | – |
| | (926,758,089) | (720,753,798) | – | (1,647,511,887) | (1,647,511,887) | – |
| Total Segment Sales | 8,823,407,491 | 21,796,925,383 | (1,288,160) | 30,619,044,714 | 2,857,761,851 | 27,761,282,863 |
| | (8,315,819,891) | (15,642,973,269) | (9,395,432) | (23,968,188,592) | (1,647,511,887) | (22,320,676,704) |
| Other Income | 246,297,062 | 212,064,685 | 4,183,902 | 462,545,649 | 67,013,455 | 395,532,194 |
| | (372,899,912) | (393,684,156) | (6,786,097) | (773,370,166) | (449,468,009) | (323,902,157) |
| Total Segment Revenue | 9,069,704,553 | 22,008,990,068 | 2,895,742 | 31,081,590,363 | 2,924,775,306 | 28,156,815,057 |
| | (8,688,719,804) | (16,036,657,425) | (16,181,529) | (24,741,558,758) | (2,096,979,896) | (22,644,578,862) |
| Total Revenue of each segment as a percentage of total revenue of all segment | 29.18 | 70.81 | 0.01 | 100.00 | | |
| | (35.12) | (64.82) | (0.07) | (100.00) | | |
| Segment Result EBIDTA | 355,445,057 | 732,166,799 | (34,225,931) | 1,053,385,925 | – | 1,053,385,925 |
| | (466,882,479) | (440,625,556) | 98,618,286 | (808,889,749) | – | (808,889,749) |
| Total EBIDTA of each segment as a total EBIDTA | 33.74 | 69.51 | (3.25) | 100.00 | | |
| | (57.72) | (54.47) | 12.19 | (100.00) | | |
| Depreciation | 151,300,833 | 99,805,517 | 364,280 | 251,470,630 | – | 251,470,630 |
| | (143,242,694) | (81,505,357) | (2,449,646) | (227,197,697) | – | (227,197,697) |
| Unallocated Expenses | | | | | | 25,646,345 |
| | | | | | | (28,958,478) |
| Total Segment Result before Interest & Taxes/Extraordinary items | 204,144,224 | 632,361,282 | (34,590,211) | 801,915,295 | | 776,268,950 |
| | (323,639,786) | (359,120,199) | 101,067,932 | (581,692,052) | | (552,733,574) |
| Total EBIT of each segment as a percentage of total EBIT of all segment | 25.46 | 78.86 | (4.31) | 100.00 | | |
| | (55.64) | (61.74) | 17.37 | (100.00) | | |
| Net Financing Cost | | | | | | 293,996,697 |
| | | | | | | (275,849,424) |
| Income Tax Expenses | | | | | | 81,539,280 |
| | | | | | | 11,927,693 |
| Exceptional Loss | | | | | | 15,249,748 |
| | | | | | | (60,058,033) |
| Profit For the Year | | | | | | 385,483,225 |
| | | | | | | (228,753,810) |
| **SEGMENT ASSETS** | 5,590,296,734 | 8,666,175,376 | 38,935,708 | 14,295,407,818 | – | 14,295,407,818 |
| | (6,291,793,151) | (6,752,891,116) | (106,279,377) | (13,150,963,644) | – | (13,150,963,644) |
| Segment Assets as a percentage of total assets of all segments | 39.11 | 60.62 | 0.27 | 100.00 | | |
| | (47.84) | (51.35) | (0.81) | (100.00) | | |
| **SEGMENT LIABILITIES** | 1,694,903,298 | 2,547,835,162 | 11,142,412 | 4,253,880,872 | – | 4,253,880,872 |
| | (1,470,857,868) | (1,938,829,985) | (38,821,716) | (3,448,509,569) | – | (3,448,509,569) |
| Segment Liabilities as a percentage of total liabilities of all segments | 39.84 | 59.89 | 0.26 | 100.00 | | |
| | (42.65) | (56.22) | (1.13) | (100.00) | | |
| Segment Capital Employed | 3,895,393,436 | 6,118,340,214 | 27,793,296 | 10,041,526,946 | – | 10,041,526,946 |
| | (4,820,935,284) | (4,814,061,131) | (67,457,661) | (9,702,454,075) | – | (9,702,454,075) |
| Segment Capital Employed as a percentage of total capital employed of all segments | 38.79 | 60.93 | 0.28 | 100.00 | | |
| | (49.69) | (49.62) | (0.70) | (100.00) | | |
| Capital Expenditure | 118,398,534 | 82,458,051 | – | 200,856,585 | | 200,856,585 |
| | (63,582,235) | (72,893,536) | – | (136,475,771) | | (136,475,771) |
| Segment Capital Expenditure as a percentage of total capital expenditure of all segments | 58.95 | 41.05 | – | 100.00 | | |
| | (46.59) | (53.41) | – | (100.00) | | |
| Depreciation | 151,300,833 | 99,805,517 | 364,280 | 251,470,630 | | 251,470,630 |
| | (143,242,694) | (81,505,357) | (2,449,646) | (227,197,697) | | (227,197,697) |

**Note 32 : Disclosure of Related parties/ Related parties transactions :**

**A Name of the Related Parties and description of relationship**

| Nature of Relationship | Concerns | Country of Incorporation |
|---|---|---|
| **Associates** | Pearl Apparels Limited | India |
| | Pearl Retail Solutions Pvt. Ltd. | India |
| | Nim International.Commerce Pvt. Ltd. | India |
| | Vau Apparels Pvt. Limited | India |
| | Little People Education Society | India |
| | Deepak Seth & Sons (HUF) (Non-exist as on 31.03.2012) | India |
| | Pearl Wears | India |
| | Vastras | India |
| | Pallas Holdings Limited | Mauritius |
| | Transnational Textile Group Ltd. | Mauritius |
| | PAF International Limited | Bangladesh |
| | JSM Trading (F.Z.E.) | Dubai |
| | Lerros Moden, GmbH | Germany |
| | Premier Fashion Garment JSC Ltd. (Formerly Premier Pearl Garment JSC) | Viatnam |
| | Superb Mind Holdings Limited | Mauritius |
| | Grupo Extremo SUR S.A. | Chille |
| | Fru Holdings Ltd. | Mauritius |
| | NAFS Ltd. | UK |

| | | |
|---|---|---|
| **Key Managerial Person/ Whole time Director of the group/ Relatives** | Mr. Deepak Seth | Chairman |
| | Mr. Pallak Seth | Vice Chairman |
| | Mr. Pulkit Seth | Managing Director |
| | Mrs. Payel Seth | Relative |
| | Mrs. Shefali Seth | Whole Time Director |
| | Mr.Vinod Vaish | Whole Time Director |
| | Mr. Sanjay Sarkar | Executive Director |

**B. Disclosure of Related Parties Transactions:**

**(Amount in Rupees)**

| Nature of Transaction | Relationship | Current Year | Previous Year |
|---|---|---|---|
| Advance Given | Associates | **145,678,049** | 48,155,159 |
| Advance Rent Paid | Associates | **–** | 8,100,000 |
| Advance Recovered | Associates | **23,802,632** | 6,143,438 |
| Sale of Goods | Associates | **–** | 1,401,995 |
| Sale of Software | Associates | **16,635,418** | – |
| Expenses Reimbursed | Associates | **7,424,284** | 6,428,186 |
| Expenses Paid by us on their behalf | Associates | **646,372** | 1,262,146 |
| Interest Paid | Key Managerial Person | **945,807** | 114,328 |
| Interest received | Associates | **13,230,416** | 9,073,447 |
| Rent Paid | Associates | **–** | 9,480,000 |
| Rent Received | Associates | **1,034,728** | – |
| Loan Given | Associates | **–** | 1,526,142 |
| Loan taken from directors | Key Managerial Person | **25,000,000** | – |
| Loan Repaid | Key Managerial Person | **2,500,000** | 10,000,000 |
| Purchase of Goods | Associates | **–** | 574,496 |
| Share Application Money Received | Associates | **–** | 21,726,218 |
| Remuneration Paid | Key Managerial Person/ WhoeTime Director/ Relative | **54,945,280** | 60,432,784 |
| Closing Balance | | | |
| - Other Receivable | Associates | **192,498,386** | 241,890,680 |
| - Other Payable | Associates | **23,465,506** | 20,963,450 |
| - Loan | Associates | **181,425,180** | 176,405,545 |

**C. Disclosure of Related Parties having more than 10% interest in each transaction in the ordinary course of business**

| Nature of Transaction | Relationship | Current Year | Previous Year |
|---|---|---|---|
| **Advance Given** | Associates | | |
| Group Extremo SUR S.A.. | | **–** | 40,488,888 |
| JSM Trading Company | | **143,998,978** | – |
| **Advance Recovered** | Associates | | |
| Pallas Holding Ltd. | | **–** | 3,390,766 |
| Little People Education Society | | **250,000** | – |
| Groupo Extremo | | **23,552,632** | – |
| JSM Trading Limited | | **–** | 2,679,000 |
| **Sale of Goods** | Associates | | |
| Lerros | | **–** | 1,401,995 |
| **Sale of Software** | Associates | | |
| Lerros Modem GMBH | | **16,635,418** | – |
| **Advance Rent** | Associates | | |
| Little People Education Society | | **–** | 8,100,000 |
| **Expenses Reimbursed** | Associates | | |
| Little People Education Society | | **7,424,284** | 102,485 |
| **Expenses Paid by us on their behalf** | Associates | | |
| Little People Education Society | | **–** | 847,962 |
| Nim International Commerce Pvt Limited | | **–** | 413,081 |
| **Expenses Recovered** | Associates | | |
| Little People Education Society | | **–** | 2,355,998 |
| Nim International Commerce Pvt Limited | | **543,312** | – |
| Vau Apparels Pvt. Limited | | **103,060** | – |
| **Service Received** | Associates | | |
| Little People Education Society | | **–** | 675,036 |
| **Interest Paid** | KMP | | |
| Mr.Deepak Seth | | **–** | 114,328 |
| Mr.Pulkit Seth | | **945,807** | – |
| **Interest received** | Associates | | |
| Little People Education Society | | **13,230,416** | 9,073,447 |
| **Security Paid** | Associates | | |
| Little People Education Society | | **–** | 720,000 |
| **Rent Paid** | Associates | | |
| Little People Education Society | | **–** | 9,480,000 |
| **Rent Received** | Associates | | |
| Little People Education Society | | **1,034,728** | – |
| **Share Application Money Received** | Associates | | |
| Lerros Modem GMBH | | **–** | 21,726,218 |
| **Loan Given** | Associates | | |
| Little People Education Society | | **–** | 1,526,142 |
| **Loan Refund** | KMP | | |
| Mr.Pulkit Seth | | **2,500,000** | |
| Mr. Deepak Seth | | **–** | 10,000,000 |

| Nature of Transaction | Relationship | Current Year | Previous Year |
|---|---|---|---|
| **Loan taken from directors** | KMP | | |
| Mr.Pulkit Seth | | **25,000,000** | |
| **Purchase of Goods** | Associates | | |
| Lerros Modem GMBH | | – | 574,496 |
| **Closing Balance** | Associates | | |
| JSM Trading Limited | | **91,743,898** | 75,351,117 |
| Lerros Modem GMBH | | **7,537,902** | – |
| Little People Education Society | | **181,425,180** | 206,189,648 |
| Grupo Extremo SUR S.A. | | **22,839,563** | 40,488,888 |
| Lerros Modern GMBH | | **7,537,902** | 163,894 |
| Nim International | | **1,201,529** | – |
| Vau Apparels Pvt. Limited | | **21,914,051** | 22,440,991 |
| Frou Holding Limited | | **31,769,439** | 26,426,683 |

Note 33 **The Company has raised Rs. 2,854,335,000 through a public issue of shares during the financial year 2006-07, the proceeds of which are deployed as follows:**

| S. No. | Particulars | Amount (In Rs.) |
|---|---|---|
| 1 | Investment in subsidiary companies for increasing the Group's production capacity by : | |
| a. | Manufacturing Facilities at cost effective locations | 46,555,793 |
| b. | Expansion of a new bottom manufacturing facility by Pearl Global Limited at Madras Export Promotion Zone Tambaram | 25,000,000 |
| c. | Establishment of a new woven and knits manufacturing facility by PT Norwest Indonesia at Semarang, Indonesia | 5,969,250 |
| d. | Acquisition of an existing knitted garment Manufacturing facility by Pearl Global Limited in Khandsa Gurgaon Haryana, India | 54,000,000 |
| e. | New Manufacturing Facility by Norp Knit Industries Ltd./other subsidiaries or joint ventures companies at cost effective locations | 15,058,950 |
| 2 | Investment in Pearl Global Ltd for design center | 38,000,000 |
| 3 | Setting up an Integrated Information Technology System | 179,082,063 |
| 4 | Prepayment of certain term loans availed by the company and its subsidiaries | 492,374,989 |
| 5 | Investment in its subsidiary company, Multinational Textiles, for payment of purchase of SACB Holdings Limited and Pallas Holdings Limited as part of the Group restructuring. | 491,729,400 |
| 6 | Setting up a domestic branded apparel retail business | 229,845,540 |
| 7 | Acquisition of existing companies to set up joint ventures companies for marketing & distribution or whole sale and supply business in apparel, accessories or related segments within or outside India | 490,555,682 |
| 8 | Meeting Share Issue expenses | 191,950,492 |
| 9 | *Extended working capital & temporary loans to its subsidiaries as an interim use of funds. | 556,446,641 |
| 10 | Balance amount lying in the mutual funds and fixed deposits & Bank Balances | 62,335,304 |

* Payment of working capital loan of Rs. 200,000,000/- for its subsidiary Pearl Global Ltd. since merged with Pearl Global Industries Limited as an interim use of funds.

* Extended a working capital loans of Rs. 18,998,125/- on a rolling basis to its subsidiary House of Pearl Fashions (US) Ltd. as an interim use of funds.

* Extended a temporary loan of Rs. 136,702,280/- for working capital to its subsidiary Nor Pearl Knitwear Ltd. (since disposed off) as an interim use of funds.

* Extended a temporary loan of Rs. 100,010,936/- for working capital to its subsidiary Pearl Global Limited since merged with Pearl Global Industries Limited as an interim use of funds

* Extended a temporary loan of Rs. 100,735,300/- for working capital to other subsidiaries as an interim use of funds.

**Note 34 Currency Derivative**

In case the company utilizes currency derivatives to hedge significant future transactions and cash flows and is a party to a variety of foreign currency contracts and options in the management of its exchange rate exposures.

**Forward Currency Contracts – Cash Flow Hedges**

a) As at the balance sheet date, the total notional amounts of outstanding forward foreign exchange contracts that the company has committed to are as below:

| Particulars | 31.03.2012 | 31.03.2011 |
|---|---|---|
| | **USD** | **USD** |
| Foreign Exchange Contract | **65,541,126** | 105,406,957 |
| | **(Equivalent to Rs 3,261,127,756)** | (Equivalent to Rs 4,956,788,380) |

These commitments have been entered into to hedge against future payments to suppliers and receipts from customers in the ordinary course of business that will fall due in the period ending 31 March 2014.

b) The terms of the forward currency contracts has been negotiated to match the terms & commitments. The Cash Flow Hedges of the expected future sales in April 2012 to March 2014 value assessed at a loss of Rs. 16,882,9242 (P.Y. Profit Rs 37,319,320) as on reporting date and this has been included in the hedging reserve.

These arrangements are designed to address significant exchange exposures and are renewed on a revolving basis as required.

**Note 35 Lease**

**House of Pearl Fashions (US) Ltd.**

The company has entered into a long term operating lease agreement for the rental of showroom space which expires on September 30, 2015. For the years ended March 31, 2012 and 2011, rent expenses amounted to Rs. 16,926,350 and Rs. 14,038,640, respectively

| Particulars | Current Year | Previous Year |
|---|---|---|
| Not later than 1 year | **6,548,480** | 10,983,900 |
| Later than 1 year and not later than 5 years | **22,101,120** | 40,497,550 |
| **Total** | **28,649,600** | 51,481,450 |

**Multinational Textile Group Limited and its subsidiaries**

One of the subsidiaries Simple Approach Limited had outstanding commitment under its non-cancelable operating leases representing rental payable for its rented premises. Leases are negotiated for an average of two years

| Particulars | Current Year | Previous Year |
|---|---|---|
| Not Later than 1 year | **2,653,976** | 2,683,063 |
| Later than 1 year and not later than 5 years | **135,318** | – |
| **Total** | **2,789,294** | 2,683,063 |

**Operating Lease Arrangements**

The Sub subsidiaries Poeticgem Limited, Norwest Industries Limited, Zamira Fashions Limited, FX Imports Company Limited and Pacific Logistics Ltd. had the following lease arrangements.

**Norwest Industries limited**

The company lease its staff quarters under operating lease arrangements, such leases for properties are negotiated for terms ranging from "one to four" years.

**Poeticgem Limited , Pacific Logistics Limited, Norwest Industries Limited and FX Imports Company Limited.**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Minimum lease payments under operating lease recognized in the consolidated income statement for the year | 26,126,469 | 25,734,924 |

At the reporting date the subsidiaries & sub-subsidiaries had outstanding commitments for future minimum lease payment under non cancelable operating leases, which falls due as follows:

**Poeticgem Limited, Pacific Logistics Limited, Norwest Industries Limited, FX Imports Company Limited & PG Group Limited.**

| Particulars | Land & Buildings | | Others | |
|---|---|---|---|---|
| | Current Year | Previous Year | Current Year | Previous Year |
| Within one year | **5,616,294** | 14,027,110 | **16,783,857** | 45,299,658 |
| In the second to fifth years | **-** | 4,373,334 | **31,950,085** | 50,796,073 |
| **Total** | **5,616,294** | 18,400,444 | **48,733,942** | 96,095,731 |

Operating lease payments represent rent payable by the sub subsidiaries and sub subsidiaries

**Obligations under finance Lease**

One of subsidiaries, Zamira Fashions Limited, had the following obligations under finance lease.

| Amount payable under finance lease: | Current Year | Previous Year |
|---|---|---|
| Within one year | 992,657 | 863,665 |
| In the second to fifth Year | 413,629 | 1,223,544 |
| | 1,406,286 | 2,087,209 |
| Less: Finance Charges | (89,683.00) | (221,821.00) |
| | 1,316,603 | 1,865,388 |
| Less than one year | 911,774 | 719,892 |
| More than year | 404,829 | 1,145,496 |
| **Total** | 1,316,603 | 1,865,388 |

The lease terms is three years and the lease is repayable in fixed monthly installments. No arrangements has been entered into for contingent rental payments.

**In the case of Pearl Global Industries Limited**

**Assets taken on Lease**

The company has taken certain assets on non-cancelable operating lease and lease rent amounting to Rs 53,393,591/-(Previous Year Rs. 4,740,000) has been debited to Profit & Loss account. The future minimum lease payments is as under:

| Minimum Lease Payments Payables | Current Year | Previous Year |
|---|---|---|
| not later than in 1 years | 41,164,940 | 4,332,000 |
| Later than 1 year but not later than 5 years | 95,713,037 | 6,451,500 |
| Later than 5 years | 4,226,880 | 2,327,600 |
| **Total** | 141,104,857 | 13,111,100 |

**General Description of Lease Terms:**

| Particulars | Purc. Option | Escalation Clause | Contingent Rent | Sub-Leasing |
|---|---|---|---|---|
| Naraina Industries Association | No | 10% Every Year | No | No |
| Shakuntala Yadav | No | No | No | No |
| "Mrs. Ranjna Sabharwal ( # 551/V, Udyog vihar)" | No | 10% Every Year | No | No |
| Gopal Clothing Company Ltd. | No | 17.5% after 30 month | No | No |
| Hope Apparels Pvt. Ltd. | No | 5% Every year | No | No. |
| Sarna Exports | No | No | No | No |
| Chennai MEPZ Unit - I | No | 25% after every 3 years | No | No |
| Chennai MEPZ Unit - I | No | 25% after every 3 years | No | No |
| Beeku Exports | No | 5% after lock in period of 3 year | No | No |

**Assets given on lease**

a) The company has given certain assets on non-cancelable operating lease and lease rent income amounting to Rs 20,159,265 (Previous Year Rs. 2,803,500) has been credited in Profit & Loss account. The future minimum lease payments receivables and details of assets, as at March 31, 2012 are as follows:

| Minimum Lease Payments Receivables | Current Year | Previous Year |
|---|---|---|
| not later than in 1 years | 36,682,020 | 2,803,500 |
| later than 1 year but not later than 5 years | 122,894,256 | 9,498,084 |
| later than 5 years | – | – |

b) **Asset Description**

| Minimum Lease Payments Receivables | Current Year | Previous Year |
|---|---|---|
| Gross Investment on Lease Assets | 129,496,988 | 2,808,329 |
| Accumulated Depreciation | 11,672,966 | 1,729,791 |
| Depreciation Charged during the Year | 3,044,159 | – |

c) **General Description of Lease Terms:**

| Particulars | Purc. Option | Escalation Clause | Contingent Rent | Sub-Leasing |
|---|---|---|---|---|
| B-Earth & Spire India Pvt. Ltd. | No | No | No | No |
| Crown Computerized Unit 16-17 | No | No | No | No |
| IBIBO Web Pvt Ltd. | No | 15% ( After Every 3 years) | No | No |
| "Creative Art Education Society A-21/13" | No | 15% ( After Every 3 years) | No | No |

**Note 36** In case of Lerros Fashions India Limited, the company has entered into a Brand Licensing Agreement with Numero Uno Clothing Limited (NUCL) to grant an exclusive and non-transferable right and license to use the Lerros Marks and goodwill associated thereto solely for a period of 5 years for the purposes of manufacturing and procurement of Lerros Merchandise and to establish and operate Lerros Boutiques in India from 1st August 2010. However, during the year, NUCL has terminated such License Agreement pending settlement of its dues to the company. However, the dispute has been referred to the Arbitration for recovery of outstanding as on the date of such termiantion and the liquidated damages. (Refer Note 16)

Accordingly, the company has recognized the Royalty Income, as per the terms of the agreement, up to date of termination on accrual basis.

**Note 37** In view of the management, the current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amount at which they are stated as on balance sheet date

**Note 38** The name of the company has been changed to Pearl Global Industries Limited pursuant to a 'Fresh Certificate of Incorporation' dated 20th March 2012 issued by the Registrar of Companies, NCT of Delhi and Haryana.

For & on behalf of Board of Directors

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN00003044

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

## AUDITORS' REPORT

To the members of **M/S PEARL GLOBAL INDUSTRIES LIMITED (FORMERLY KNOWN AS HOUSE OF PEARL FASHIONS LIMITED)**

We have audited the attached balance sheet of Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited) as at 31st March 2012, the statement of profit and loss and also the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes (a) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement (b) assessing the accounting principles used in the preparation of the financial statements (c) assessing significant estimates made by management in the preparation of the financial statements and (d) evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 [as amended by the Companies (Auditor's Report) (Amendment) Order 2004] issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

(a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

(b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

(c) The Company's balance sheet, statement of profit and loss and cash flow statement dealt with by this report are in agreement with the books of account;

(d) In our opinion, the balance sheet, statement of profit and loss and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

(e) On the basis of written representations received from the directors as on 31st March 2012 and taken on record by the Board of Directors. We report that none of the directors are disqualified as on 31st March 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

(f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

   (i) in the case of the balance sheet, of the state of affairs of the company as at 31st March 2012;

   (ii) in the case of the statement of profit and loss, the profit for the year ended on that date; and

   (iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

**For S.R.DINODIA & CO.**
CHARTERED ACCOUNTANTS
REGN. NO. 001478N

**(SANDEEP DINODIA)**
PARTNER
M.NO. 083689

Place: New Delhi
DATE: 29th May, 2012

## ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our audit report of even date)

**RE: M/S PEARL GLOBAL INDUSTRIES LIMITED**
**(FORMERLY KNOWN AS HOUSE OF PEARL FASHIONS LIMITED)**

i) a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets ,which still needs updation

b) As explained to us, physical verification of major portion of fixed assets as at 31st March 2012 was conducted by the management during the year. In our opinion, the frequency of physical verification is reasonable. No material discrepancies were noticed on such verification.

c) In our opinion and according to the information and explanations given to us, no substantial part of fixed assets has been disposed off by the Company during the year.

ii) a) On the basis of information and explanation provided by the management, the inventory has been physically verified during the year by the management except the inventories in transit and lying with the third parties. In our opinion the frequency of physical verification followed by the management is reasonable.

b) The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

c) In our opinion, the company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

iii) a) The company has granted unsecured advances during the year to six parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum balance involved in the transaction is Rs. 443,316,397/- . (The year end balance was Rs. 408,594,070/-).

b) The rate of interest and other terms and conditions on which advancees have been given are not prime facie prejudicial to the interest of the company.

c) In respect of the aforesaid, all the advances were repayable on demand

iv) a) The company had taken unsecured loans from one of the party covered in the register maintained under section 301 of the Companies Act, 1956. The maximum balance involved in the transaction is Rs. 29,743,879/- . (The year end balance was Rs. 29,743,879/-).

b) The rate of interest and other terms and conditions on which loan has been taken are not prime facie prejudicial to the interest of the company.

c) On the basis of information available, in respect of the aforesaid loan, the principal amount has not fallen due for repayment.

v) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of inventory and fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices, there is no continuing failure to correct the weaknesses in the aforesaid internal control systems.

vi) a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section.

b) In our opinion and according to explanation given to us, the transactions made in pursuance of such contracts or arrangements entered in the register maintained u/s 301 of the Companies Act, 1956 and exceeding values of Rs.5 Lacs have been made at prices which are reasonable with regard to the prevailing market prices at the relevant times.

vii) In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits within the meaning of section 58A, 58AA and the other relevant provisions of the Companies Act, 1956 and rules framed thereunder.

viii) In our opinion, the company has an internal audit system commensurate with the nature and size of its business.

ix) The Central Government has not prescribed the maintenance of cost records under section 209 (1) (d) of the Companies Act 1956, for any of the products of the company.

x) a) According to the information and explanation given to us, the company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education protection fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues as applicable to it.

b) According to the records of the Company examined by us and the information and explanations given to us, there is no amount outstanding in respect of aforesaid statutory dues on account of any dispute as at 31st March, 2012.

c) On the basis of our verification of records and information and explanations provided, the detail of disputed statutory dues aggregating amounting to Rs 1,061,474 which have not been deposited on account of matters pending before appropriate authorities are as under:

| Name of the statue | Nature of Dues | Amount in Rs. | Period to which Amount Relates | Forum where dispute is pending |
|---|---|---|---|---|
| Employee State Insurance | E.S.I | 219,281 | - | E.S.I court |
| Apparel Export Promotion Council | Penalty | 842,193 | 1999 | High court, New Delhi |

xi) The company does not have any accumulated losses at the end of the financial year and has not incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year.

xii) In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to banks during the year. There were no dues payable to any financial institution or debenture holders.

xiii) The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of clause 4(xii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

xiv) The company is not a chit fund or a nidhi mutual benefit fund society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

xv) The company is not dealing or trading in shares, securities, debentures and other investments. Therefore, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

xvi) In our opinion and on the basis of information and explanation given to us, the company has given the guarantees as mentioned in the Note 29(a) for loans taken by others from banks or financial institutions.

xvii) On the basis of information and explanation given to us, we are of opinion that the term loans were applied for the purposes for which the loans were obtained.

xviii) According to the information and explanations given to us and on the basis of an overall examination of the balance sheet of the company, in our opinion, funds raised on short term basis have not been used for long term investments.

xix) During the year, the company has not allotted shares on preferential basis to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956. However during the year, the company has issued shares to parties covered in the register maintained under section 301 of the Companies Act, 1956 in terms of order of Hon'ble High Court of Delhi approving scheme of amalgamation of the company. The price at which the shares have been issued is not prejudicial to the interest of the company.

xx) The Company has not issued any debentures during the year. Therefore, the provisions of clause 4(xix) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

xxi) We have verified the end use of money raised by the public issue as declared by the management in prospectus filed with "The Securities and Exchange Board of India" and as appearing in the Note No.35 of Notes forming part of the financial statements

xxii) During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India and according to the information and explanation given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year nor have we been informed of such case by the management.

For **S. R. DINODIA & CO.,**
CHARTERED ACCOUNTANTS
Regn No. 001478N

**(SANDEEP DINODIA)**
PARTNER
M.NO. 083689

Place: New Delhi
Date: 29th May 2012

## Balance Sheet as at March 31, 2012

| PARTICULARS | Note No. | As At March 31, 2012 | (Amount In Rupees) As At March 31, 2011 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share Capital | 3 | **216,639,370** | 195,003,430 |
| Reserves and surplus | 4 | **3,310,213,706** | 2,646,144,074 |
| | | **3,526,853,076** | 2,841,147,504 |
| **Non-current liabilities** | | | |
| Long-term borrowings | 5 | **87,067,586** | 32,626,338 |
| Other Long term liabilities | 6 | **128,378,347** | 20,518,679 |
| Long-term provisions | 7 | **11,310,059** | 1,786,795 |
| | | **226,755,992** | 54,931,812 |
| **Current liabilities** | | | |
| Short-term borrowings | 8 | **1,028,173,981** | - |
| Trade payables | 9 | **772,018,272** | 3,828,459 |
| Other current liabilities | 9 | **258,193,585** | 10,733,393 |
| Short-term provisions | 7 | **19,415,498** | 289,812 |
| | | **2,077,801,336** | 14,851,664 |
| **Total** | | **5,831,410,404** | 2,910,930,980 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | 10 | | |
| Tangible assets | | **1,221,103,567** | 29,791,934 |
| Intangible assets | | **94,768,337** | 115,458,377 |
| Capital work-in-progress | | **34,816,542** | - |
| Non-current investments | 11 | **1,481,295,317** | 1,670,962,522 |
| Deferred tax assets (net) | 12 | **582,683** | 65,366,030 |
| Long-term loans and advances | 13 | **562,723,770** | 874,857,832 |
| Other non-current assets | 14 | **28,483,855** | – |
| | | **3,423,774,071** | 2,756,436,695 |
| **Current assets** | | | |
| Inventories | 15 | **1,155,127,831** | – |
| Trade receivables | 16 | **674,086,773** | 32,538,397 |
| Cash and bank balances | 17 | **322,183,290** | 59,967,836 |
| Short-term loans and advances | 13 | **139,854,466** | 61,367,272 |
| Other current assets | 14 | **116,383,973** | 620,780 |
| | | **2,407,636,333** | 154,494,285 |
| **Total** | | **5,831,410,404** | 2,910,930,980 |
| Summary of Significant Accounting Policies | 2.3 | | |

The acompanying notes are an integral part of the financials statements

**As per our Audit Report of even date attached**

**For & on behalf of Board of Directors**

**For S. R. DINODIA & CO.**
Chartered Accountants
Regn. No. 001478N

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

**(SANDEEP DINODIA)**
Partner
M.No. 083689

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

Place: New Delhi
Dated: 29th May, 2012

## Statement of Profit and Loss Account for the year ended March 31, 2012

(Amount in Rupees)

| | Note No. | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|---|
| **Revenue from operations** | 18 | 6,467,003,311 | 247,309,891 |
| Other income | 19 | 93,343,224 | 97,939,111 |
| **Total Income** | | 6,560,346,535 | 345,249,003 |
| **Expenses** | | | |
| Cost of materials consumed | 20 | 1,598,784,923 | - |
| Purchases of Stock-in-Trade | 21 | 2,446,850,968 | 202,331,243 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-Trade | 22 | 94,142,729 | - |
| Employee benefits expense | 23 | 539,225,406 | 46,802,494 |
| Finance costs | 24 | 212,182,101 | 7,984,167 |
| Depreciation and amortization expense | 10 | 103,642,785 | 34,808,464 |
| Other expenses | 25 | 1,572,030,198 | 56,611,936 |
| **Total Expenses** | | 6,566,859,110 | 348,538,304 |
| **Profit before exceptional and extraordinary items and tax** | | (6,512,575) | (3,289,301) |
| Exceptional items | 26 | (25,696,357) | 83,333 |
| **Profit before extraordinary items and tax** | | 19,183,783 | (3,372,634) |
| Extraordinary Items | 27 | - | 292,383,045 |
| **Profit before tax** | | 19,183,783 | (295,755,679) |
| **Tax expense:** | | | |
| Tax Adjustment for earlier year | | (3,943,341) | - |
| Provision for Deferred Tax | 12 | (13,508,900) | (57,682,997) |
| **Profit (Loss) of the year** | | 36,636,024 | (238,072,682) |
| **Earnings per equity share:** | | | |
| Basic | 28 | 1.69 | (12.21) |
| Diluted | 28 | 1.69 | (12.21) |
| Summary of Significant Accounting Policies | 2.3 | | |

The acompanying notes are an integral part of the financials statements

**As per our Audit Report of even date attached**

**For & on behalf of Board of Directors**

**For S. R. DINODIA & CO.**
Chartered Accountants
Regn. No. 001478N

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

**(SANDEEP DINODIA)**
Partner
M.No. 083689

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

Place: New Delhi
Dated: 29th May, 2012

## Cash Flow Statement for the year ended March 31,2012

| Particulars | | For the year ended March 31, 2012 | | For the year ended March 31, 2011 | |
|---|---|---|---|---|---|
| | | | | | (Amount in Rs.) |
| **A.** | **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| | Net Profit Before Tax and Prior Period Items | | **19,183,785** | | (3,146,650) |
| | **Adjustments For :** | | | | |
| | Depreciation | **103,642,785** | | 34,808,464 | |
| | Foreign Exchange Fluctuation | **(51,830,000)** | | (12,360,663) | |
| | Dividend Income | **(7,575)** | | – | |
| | (Profit)/Loss on sale of Assets | **(25,696,357)** | | 83,333 | |
| | Share in the (Profit)/Loss from Partnership firm | **(1,798,156)** | | 1,126,277 | |
| | Rent received | **(20,159,265)** | | (2,803,500) | |
| | Net Interest paid | **137,737,480** | | 5,482,454 | |
| | Interest received | **(49,224,485)** | | (67,717,845) | |
| | | | **92,664,427** | | (41,381,480) |
| | **OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES** | | **111,848,212** | | (44,528,131) |
| | **Adjustments For :** | | | | |
| | Trade and Other Receivables | **5,409,044** | | 80,373,129 | |
| | Inventories | **377,561,749** | | – | |
| | Trade Payables and other payables | **(172,091,784)** | | (39,540,216) | |
| | | | **210,879,009** | | 40,832,913 |
| | **CASH GENERATED FROM OPERATIONS** | | **322,727,220** | | (3,695,218) |
| | Prior Period adjustments | **–** | | (225,984) | |
| | Extraordinary adjustments | **–** | | (292,383,045) | |
| | Direct Taxes Paid | **(32,367,916)** | | (5,281,955) | |
| | | | **(32,367,916)** | | (297,890,984) |
| | **NET CASH FROM OPERATING ACTIVITIES (A)** | | **290,359,304** | | (301,586,202) |
| **B.** | **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| | Purchase of Fixed Assets (including CWIP) | **(92,488,470)** | | (5,138,137) | |
| | Sale of Investment | **2,125,049** | | 275,552,901 | |
| | Investment made during the year | **(17,980,541)** | | (255,371,365) | |
| | Investment in Bank deposits (having original maturity there than one year) | **(16,836,300)** | | – | |
| | Loan Given | **10,398,749** | | 43,073,818 | |
| | (Increase)/Decrease in share application money | **30,745,980** | | 197,983,365 | |
| | Sale of Fixed Assets | **85,232,213** | | – | |
| | Interest Received | **49,224,485** | | 67,830,062 | |
| | Share in profit in firm | **1,798,156** | | (1,126,277) | |
| | Rent Received | **20,159,265** | | 2,803,500 | |
| | Dividend Received | **7,575** | | – | |
| | **NET CASH USED IN INVESTING ACTIVITIES (B)** | | **72,386,161** | | 325,607,868 |

| Particulars | | | (Amount in Rs.) | |
|---|---|---|---|---|
| | **For the year ended March 31, 2012** | | For the year ended March 31, 2011 | |
| **C. CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Interest Paid | **(137,737,480)** | | (5,482,454) | |
| Dividend Paid | **(3,186)** | | 58,733 | |
| Proceeds from Borrowings | **(415,825,979)** | | (17,124,334) | |
| **NET CASH FROM FINANCING ACTIVITIES (C)** | | **(553,566,645)** | | (22,548,054) |
| **Increase in Cash/Cash equivalents (A+B+C)** | | **(190,821,179)** | | 1,473,612 |
| Exchange Fluctuation | | **51,830,000** | | 12,360,663 |
| **Net Increase in Cash/Cash equivalents (A+B+C)** | | **(138,991,179)** | | 13,834,275 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **461,174,470** | | 46,133,562 |
| **CASH AND CASH EQUIVALENTS AT THE CLOSE OF THE YEAR** | | **322,183,290** | | 59,967,836 |
| Cash & Cash Equivalents include: | | | | |
| – Cash on Hand | | **848,782** | | 227,222 |
| – Cheque on Hand | | **228,934** | | – |
| Balance with Scheduled banks: | | | | |
| – In Curent Account | | **146,637,220** | | 17,059,629 |
| – In Fixed Deposit Account | | **172,054,805** | | 42,600,000 |
| Balances with bank held as margin money or security against borrowing, | | **1,850,000** | | – |
| Unpaid dividend | | **563,549** | | 80,985 |
| | | **322,183,290** | | 59,967,836 |

**Note:**

Figures in brackets represent outflows

**As per our Audit Report of even date attached**

**For & on behalf of the Board of Directors**

**For S. R. DINODIA & CO.**
Chartered Accountants
Regn. No. 001478N

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

**(SANDEEP DINODIA)**
Partner
M.No. 083689

Place: New Delhi
Dated: 29th May, 2012

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

## Notes to the Financial Statements for the year ended March 31, 2012

**1. Corporate Information**

Pearl Global Industries Limited (Formerly House of Pearl Fashion Limited) is a public limited company domiciled in India and incorporated under the provisions of the Companies Act,1956. The company is primarily engaged in manufacturing, sourcing and export of ready to wear apparels through its facilities and operations in India and sourcing overseas. It's shares are listed on BSE and NSE in India.

**2.1 Basis of Preparation**

i) The financial statements of the Company have been prepared in compliance with Accounting Standards issued by the Companies (Accounting Standards) Rules,2006, the relevant provisions of the Companies Act, 1956 and guideline issued by the Security Exchange Board of India under the historical cost convention and on an accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) except investment available for sale and held for trading is measured at fair value and land and building which is measured at revalued cost. However the financial statements of foreign subsidiaries have been prepared in compliance with the local laws and applicable accounting standards. Necessary adjustments for material variances in the accounting policies, wherever applicable, have been made in the consolidated financial statements.

ii) The accounting policies adopted for preparation of financial statements are consistent with those of previous year, except for the change in accounting policy explained para 2.3 (a) below.

**2.2 Uses of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires making of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets & liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting year. Differences between the actual results and estimates are recognized in the year in which the results are known /materialized.

**2.3 Summary of Significant Accounting Policies**

**a. Change in Accounting Policy**

Presentation and disclosure of financial statements

During the year ended 31 March 2012, the revised Schedule VI notified under the Companies Act 1956, has become applicable to the company, for preparation and presentation of its financial statements, the adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial statements. The company has also reclassified the previous year figures in accordance with the requirements applicable in the current year.

**b) Inventories**

i) Inventories of finished goods manufactured by the company are valued at lower of cost and estimated net realizable value. Cost includes material cost on weighted average basis and appropriate share of overheads.

ii) Inventories of finished goods traded are valued at lower of procurement cost (FIFO Method) or estimated net realizable value).

iii) Inventories of Raw Material, Work in Progress, Accessories & Consumables are valued at cost (weighted average method) or at estimated net realizable value whichever is lower. WIP cost includes appropriate overheads.

**c) Cash Flow Statement**

Cash flows are reported using the indirect method as specified in Accounting Standard (AS-3) 'Cash Flow Statement' as issued by the Companies (Accounting Standards) Rules,2006.

**d) Depreciation / Amortisation**

i) Depreciation on fixed assets is provided on Straight Line Method at the rates and in the manner as prescribed in Schedule XIV of the Companies Act. Fixed Assets Costing upto Rs. 5,000/- are depreciated fully in the year of purchase.

ii) Software is amortized over the period of 5 years which in the opinion of the management is the estimated economic life.

iii) Leasehold land is amortised over the period of lease.

**e) Revenue Recognition**

i) Export sale is recognized on the basis of date of Airway Bill/ Bill of lading.

ii) Sales are shown as net of trade discount and include Freight & Insurance recovered from buyers as per the terms of sale.

iii) Interest income is recognized on time proportion basis.

iv) Dividend income is recognized when the right to receive is established.

v) In case of High Sea Sales revenues are recognized on transfer of title of goods to the customer.

vi) Sale of software is recognized at the delivery of complete module & patches through transfer of code.

vii) Income from job work is recognized on the basis of proportionate completion method. However, where job work income is subject to Minimum Assured Profit, it is recognised based on that specific contract.

viii) Commission income is recognized when the services are rendered.

ix) Purchase are recognized upon receipt of such goods by the company. Purchases of imported goods are recognized after completion of custom clearance formalities and upon receipt of such goods by the company.

x) Handling Fee income is recognized in the period in which the services are rendered.

**f) Fixed Assets**

Fixed Assets are stated at cost less accumulated depreciation and impairment loss. Cost comprises the purchase price and any attributable cost including borrowing costs of bringing the asset to its working condition for its intended use and related pre-operative expenses are capitalized over the total project at the commencement of project/on start of commercial production. However, certain land and building are measured at revalued cost.

**g) Intangible Assets**

Intangible assets such as technical know how fees, etc. which do not meet the criterion laid down, in the terms of Accounting Standard 26 on "Intangible Assets" as issued by the Companies (Accounting Standards) Rules,2006 , are written off in the year in which they are incurred. If such costs/ expenditure meet the criterion, it is recognized as an intangible asset and is measured at cost. It is amortized by way of a systematic allocation of the depreciable amount over its useful life and recognized in the balance sheet at net of any accumulated amortization and accumulated impairment losses thereon.

**h) Foreign Currency Transactions**

i) Investments in foreign entities are recorded at the exchange rates prevailing on the date of making the investments.

ii) Sales made in foreign currency are translated on average monthly exchange rate. Gain/Loss arising out of fluctuation in the exchange rate on settlement of the transaction is recognized in the profit and loss account.

iii) Foreign Currency monetary items are reported using the closing rate. The resultant exchange gain/loss are dealt with in profit & loss account.

**i) Investment and Financial Assets**

As per AS-30, the company has classified its investments as follows:-

**Held for trading :** Trading securities are those (both debt & equity) that are bought and held principally for the purpose of selling them in near term. Such securities are valued at fair value and gain/loss is recognised in the income statement.

**Held to Maturity :** The investments are classified as held to maturity only if the company has the positive intent and ability to hold these securities to maturity. Such securities are held at historical cost.

**Available-for-sale financial assets :** Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity & debt instruments that are designated as available for sale and are initially recognized at their value. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, with gains or loss recognised as a separate component of equity as "Investment Revaluation Reserve" until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because, first the variability in the range of reasonable fair value estimates is significant for that investment or, secondly the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment.

**Fair value :** The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date.

**j) Derivative financial instruments and hedging**

The Company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at cost on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

**Fair value hedges:** A hedge of the exposure to changes in the fair value of recognized asset or liability or an unrecognized firm commitment (except for foreign risk); or identified portion of such asset, liability or firm commitment (except for foreign risk), or an identified portion of such asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss.

**Cash flow hedges:** A hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, and could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognized directly in the equity, while the ineffective portion is recognized in the income statement.

**k) Employee Benefit**

Expenses and Liabilities in respect of employee benefits are recorded in accordance with Revised Accounting Standard 15 – Employees Benefits (Revised 2005 as issued by the Companies (Accounting Standards) Rules,2006.

**l) Post Employment Benefit Plans**

Payments to Defined Contribution Retirements Benefit Schemes are charged as an expense as they fall due.

For Defined Benefit Schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognized in full in the profit and loss account for the period in which they occur. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight line basis over the average period until the benefit become vested.

The retirement benefit obligation recongnised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

**ii) Short Term Employee Benefits**

The undiscounted amount of short term employee benefits expected to be paid in exchange for the services rendered by employees is recognized during the period when the employee renders the service.

**m) Borrowing Costs**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

**n) Leases**

i) In respect of lease transactions entered into prior to April 1, 2001, lease rentals of assets acquired are charged to profit & loss account.

ii) Lease transactions entered into on or after April,1, 2001:

- Assets acquired under leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. Such assets are capitalized at the inception of the lease at the lower of the fair value or the present value of minimum lease payments and a liability is created for an equivalent amount. Each lease rental paid is allocated between the liability and the interest cost, so as to obtain a constant periodic rate of interest on the outstanding liability for each period.
- Assets acquired under leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rentals are charged to the profit & Loss Account on accrual basis.

iii) Assets leased out under operating leases are capitalized. Rental income is recognized on accrual basis over the lease term.

**o) Taxes On Income**

Current tax is amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961.

Deferred tax is recognized on timing differences being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognized if there is a virtual certainty that there will be sufficient future taxable income available to reverse such losses.

**p) Impairment of Assets**

An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss is charged to the Profit & Loss Account in the year in which an asset is identified as impaired. The impairment loss recognized in prior accounting period is reversed if there has been a change in the estimate of recoverable amount.

**q) Provision, Contingent Liabilities And Contingent Assets**

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognized but are disclosed in the Notes to Account. Contingent assets are neither recognized nor disclosed in the financial statements.

**Note 3 : Share Capital**

(Amount in Rupees)

| | **As At March 31,2012** | As At March 31,2011 |
|---|---|---|
| **Authorised Share Capital** | | |
| 51,440,000(March 31, 2011:24,990,000) Equity Shares of Rs. 10/- each | **514,400,000** | 249,900,000 |
| 10,000 (March 31, 2011:10,000) 4% Non Cumulative Redeemable Preference Shares of Rs. 10/- each | **100,000** | 100,000 |
| 3,256,000 (March 31, 2011: nil) 10.5% Non Cumulative Redeemable Preference Shares of Rs. 100/- each | **325,600,000** | - |
| | **840,100,000** | 250,000,000 |
| **Issued, Subscribed & Paid-up Shares** | | |
| **Equity Share Capital** | | |
| 21,663,937 (March 31, 2011: 19,500,343) Equity Shares of Rs. 10/- each fully paid up | **216,639,370** | 195,003,430 |
| | **216,639,370** | 195,003,430 |

**a. Reconciliation of the shares outstanding at the beginning and at the end of the year**

(Amount in Rupees)

| | **March 31,2012** | | March 31,2011 | |
|---|---|---|---|---|
| **Equity Shares** | **No. of shares** | **Amount** | No. of shares | Amount |
| Balances of Shares at the begning of year | **19,500,343** | **195,003,430** | 19,500,343 | 195,003,430 |
| Add:- Addition during the year | **2,163,594** | **21,635,940** | – | – |
| Less:- Buy back during the year | **–** | **–** | – | – |
| Balances of Shares at the end of the year | **21,663,937** | **216,639,370** | 19,500,343 | 195,003,430 |

**b. Terms/rights attached to equity shares**

The company has only one class of equity shares having per value of Rs. 10 per share. Each holder of equity shares is entitled to one vote per share.

In the event of liquidation of the company the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

c. **Details of shareholder holding more than 5 percent shares in the company**

| | **March 31,2012** | | March 31,2011 | |
|---|---|---|---|---|
| | **No. of shares** | **% holding** | No. of shares | % holding |
| Mrs. Payel Seth | **9,759,977** | **45.05** | 9,067,071 | 46.50 |
| Mr. Deepak Seth | **1,544,499** | **7.13** | 1,230,686 | 6.31 |
| Mr. Pulkit Seth | **1,511,384** | **6.98** | 1,310,337 | 6.72 |
| Mr. Pallak Seth | **1,317,646** | **6.08** | 1,306,904 | 6.70 |

d. **For a period of 5 years immediately preceding the date of Balance sheet:-**

| | No. of shares | No. of shares |
|---|---|---|
| **Aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.** | | |
| Equity Share Capital* | 2,163,594 | – |
| *Being shares issued to shareholders of Pearl Global Limited, subsidiary since merged with the company in terms of Scheme of Amalgamation | | |
| **Aggregate number and class of shares allotted as fully paid up by way of bonus shares.** | | |
| Equity Share Capital* | – | 9,313,358 |
| * Allotted on June 17, 2006 | | |

**Note 4 : Reserves and surplus**

(Amount in Rupees)

| | **As At March 31, 2012** | As At March 31, 2011 |
|---|---|---|
| **Share Premium** | | |
| Balances at the beginning of year | **2,713,246,130** | 2,713,246,130 |
| Add:- Addition during the year | **64,918,034** | – |
| Balances at the close of year | **2,778,164,164** | 2,713,246,130 |
| **Hedging Reserve (Refer Note 34)** | | |
| Balances at the beginning of year | **–** | – |
| Less:- Utilised during the year | **(150,831,448)** | – |
| Balances at the close of year | **(150,831,448)** | – |
| **Capital Redemption Reserve** | | |
| Balances at the beginning of year | **600,000** | 600,000 |
| Add:- Addition during the year | **8,900,000** | – |
| Balances at the close of year | **9,500,000** | 600,000 |
| **Revaluation Reserve** | | |
| Balances at the beginning of year | **–** | – |
| Add:- Addition during the year | **39,296,855** | – |
| Balances at the close of year | **39,296,855** | – |
| **General Reserve** | | |
| Balances at the beginning of year | **11,323,604** | 11,323,604 |
| Add:- Addition during the year | **398,071,794** | – |
| Balances at the close of year | **409,395,398** | 11,323,604 |
| **Amalgamation Reserve** | | |
| Balances at the beginning of year | **990,000** | 990,000 |
| Add:- Addition during the year | **61,604,738** | – |
| Balances at the close of year | **62,594,738** | 990,000 |

**Note 4 : Reserves and surplus**

(Amount in Rupees)

| | **As At March 31, 2012** | As At March 31, 2011 |
|---|---|---|
| **Profit & Loss Account** | | |
| Balances at the beginning of year | **(80,015,660)** | 158,057,022 |
| Add:- Profit/(Loss) during the year | **242,109,659** | – |
| Less:- Utilise during the year | **–** | (238,072,682) |
| Balances at the close of year | **162,093,999** | (80,015,660) |
| Total Reserves & Surplus | **3,310,213,706** | 2,646,144,074 |

**Note 5 : Long Term Borrowings**

(Amount in Rupees)

| | **Non Current Portions** | | Current Maturities | |
|---|---|---|---|---|
| **Term Loans (Secured)** | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| Indian rupee loan from banks | **87,067,586** | **32,402,775** | 33,817,730 | 6,616,292 |
| **Other loans and advances (unsecured)** | | | | |
| From Others | **–** | **223,564** | – | – |
| Amount disclosed under "Other current liabilities" (Note 9) | **–** | **–** | (33,817,730) | (6,616,292) |
| | **87,067,586** | **32,626,338** | – | – |

a) Vehicle loans are secured against hypothecation of respective vehicles.

b) Term loan from Axis bank is secured by equitable mortgage on property situated at plot no. 21/13-X, Block-A, Naraina Industrial Area, Phase-II, New Delhi owned and guaranteed by the promoter directors of the company repayable Rs. 909,600 p.m. by January 2016.

c) Rupee term loan from UCO Bank is secured by exclusive first charge on the movable/immovable assets purchased from proceeds of term loan (including exclusive charge on the superstructure built on land at D-6/III, Phase II, MEPZ, Chennai and first charge on immovable property situated at 446, Phase V, Udyog Vihar, Gurgaon, guaranteed by a promotor director and repayable quarterly Rs. 3,025,000 by January 2013.

d) Rupee term loan from Punjab National Bank is secured by exclusive charge on the movable/immovable assets purchased from proceeds of term loan (including exclusive charge on the land & building located at Plot No.51, Sector 32, Gurgaon guaranteed by promotor director and repayable Rs. 5,000,000 quarterly by November 2015.

e) Rupee term loan & corporate loan from Yes Bank Ltd. are secured by first charge on movable assets of the company and exclusive charge on immovable property located at Plot No. 10; sector - 5 , Growth center, Bawal and at Plot No. 751; sector 37 - II, Pace City Gurgaon. During the year, the company has fully repaid all such loans with Yes Bank.

**Note 6 : Other Long Term Liabilities**

(Amount in Rupees)

| | **As At March 31, 2012** | As At March 31, 2011 |
|---|---|---|
| - Security Deposit | **125,052,669** | – |
| - Others | **3,325,678** | 20,518,679 |
| | **128,378,347** | 20,518,679 |

**Note 7 : Provisions**

| | **Long Term** | | **Short Term** | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31,2011 |
| **Provisions for Employee Benefits** | | | | |
| Gratuity (Refer Note 23) | 100,088 | – | 18,742,925 | 104,703 |
| Leave Encashment | 11,209,971 | 1,786,795 | 672,573 | 185,109 |
| | 11,310,059 | 1,786,795 | 19,415,498 | 289,812 |

**Note 8 : Short Term Borrowings**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Loan From Banks** (secured) | | |
| Working Capital Loans | | |
| – Rupee Loan | **581,079,430** | – |
| – Foreign Currency Loan | **417,350,672** | – |
| **Loan and advances from related parties (unsecured)** | **29,743,879** | – |
| | **1,028,173,981** | – |
| **The above amount includes** | | |
| Secured borrowings | **998,430,102** | – |
| Unsecured borrowings | **29,743,879** | – |

Working Capital Loans including bill discounting under consortium of Banks which are secured by first pari-passu charge on present and future movable fixed assets comprising vehicle, furniture and fixtures, disposable fixed assets, stocks of raw material, stocks in process, stores & spares, bill receivable & book debts, guaranteed by a promotor director of the company and mortgage of the properties situated at Plot No.H-597-603, RICCO Industrial Area, Bhiwadi, Alwar and Plot No.16-17, Phase-VI, Udyog Vihar, Gurgaon.

**Loan from others**

Loan from others are payable on demand, taken during ordinary course of business.

**Loan from Directors**

Loan from directors are payable on demand, taken during ordinary course of business.

**Note 9 : Other current liabilities**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Trade Payables*** | **772,018,272** | 3,828,459\ |
| **Other liabilities:** | | |
| Current maturities of long-term borrowings (Refer Note 5) | **33,817,730** | 6,616,292 |
| Unpaid dividends ** | **946,025** | 80,985 |
| Others: | | |
| – Derivative financial instruments (Note 34) | **150,831,448** | – |
| – Others*** | **72,598,382** | 4,036,116 |
| | **258,193,585** | 10,733,393 |
| | **1,030,211,857** | 14,561,852 |

* Pursuant to amendments to schedule VI to Companies Act, 1956 vide notification number GSR 719 (E) dated November 16, 2007, there is no amount due as of March 31, 2012 due to Micro, small & medium enterprises as defined in Industries (Development and Regulation) Act, 1951.

** It does not include any amount due to be transferred to Investor Education and Protection Fund.

*** Others include Statutory Dues

**Note 10 : Fixed Assets**

(Amount in Rupees)

| PARTICULARS | GROSS BLOCK | | | | | DEPRECIATION | | | | | NET BLOCK | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AS AT 01.04.2011 | ADDITION ON AMALGAMATION | ADDITION DURING THE YEAR | DEDUCTION | **AS AT 31.03.2012** | AS AT 01.04.2011 | ADDITION ON AMALGAMATION | ADDITION DURING THE YEAR | DEDUCTION | **AS AT 31.03.2012** | **AS AT 31.03.2012** | AS AT 31.03.2011 |
| **A. Tangible Assets** | | | | | | | | | | | | |
| Land | 1,036,027 | 220,598,153 | 2,996,400 | 3,091,884 | **221,538,696** | – | 2,422,606 | 431,978 | | **2,854,583** | **218,684,113** | 1,036,027 |
| Buildings | 1,772,301 | 577,318,778 | 61,044,684 | 8,904,171 | **631,231,592** | 1,729,791 | 82,344,308 | 19,107,149 | 1,865,588 | **101,315,660** | **529,915,933** | 42,510 |
| Plant and Equipment | 18,267,262 | 690,124,009 | 12,266,645 | 65,748,071 | **654,909,845** | 4,837,055 | 239,498,688 | 36,636,703 | 18,048,524 | **262,923,921** | **391,985,924** | 13,430,207 |
| Furniture and fixtures | 1,957,374 | 69,641,599 | 2,077,526 | 279,854 | **73,396,646** | 499,701 | 35,559,969 | 4,551,383 | 36,059 | **40,574,994** | **32,821,651** | 1,457,673 |
| Vehicles | 17,017,491 | 42,693,858 | 9,685,393 | 2,063,002 | **67,333,740** | 4,789,573 | 11,107,730 | 6,043,395 | 1,057,929 | **20,882,769** | **46,450,971** | 12,227,918 |
| Office Equipments | 1,874,855 | – | 191,900 | 486,905 | **1,579,850** | 277,257 | – | 87,549 | 29,930 | **334,875** | **1,244,975** | 1,597,598 |
| OTHERS (specifying nature) | | | | | **–** | | | | | **–** | **–** | – |
| Total | 41,925,310 | 1,600,376,397 | 88,262,549 | 80,573,887 | **1,649,990,369** | 12,133,376 | 370,933,300 | 66,858,156 | 21,038,031 | **428,886,802** | **1,221,103,567** | 29,791,934 |
| **B. Intangible Assets** | | | | | | | | | | | | |
| Computer software | 163,207,486 | 18,552,126 | 8,272,956 | | **190,032,568** | 47,749,109 | 10,730,494 | 36,784,628 | | **95,264,231** | **94,768,337** | 115,458,377 |
| Total | 163,207,486 | 18,552,126 | 8,272,956 | – | **190,032,568** | 47,749,109 | 10,730,494 | 36,784,628 | – | **95,264,231** | **94,768,337** | 115,458,377 |
| **C. Capital Work in Progress** | | | | | | | | | | | | |
| CWIP | – | 38,863,577 | 61,318,449 | 65,365,484 | **34,816,542** | – | | | | **–** | **34,816,542** | – |
| Total | – | 38,863,577 | 61,318,449 | 65,365,484 | **34,816,542** | – | | – | – | **–** | **34,816,542** | – |
| Grand Total | 205,132,796 | 1,657,792,100 | 157,853,954 | 145,939,371 | **1,874,839,479** | 59,882,485 | 381,663,794 | 103,642,785 | 21,038,031 | **524,151,033** | **1,350,688,446** | 145,250,311 |
| Previous Year | 155,841,443 | – | 49,378,122 | 86,769 | **205,132,796** | 25,077,458 | – | 34,808,464 | 3,437 | **59,882,485** | **145,250,311** | 130,763,985 |

1. CWIP includes pre-operative expenses of Rs. 4,185,753 (Previous year : 3,874,753 )
2. During last year, the company had initiated the process of converting its leasehold land into freehold land.
3. Opening balance of land includes Rs.45,229,131 on account of revaluation on 31.03.2002 .
4. Opening balance of building includes Rs.5,932,276 on account of reduction in revaluation on 31.03.2002 .
5. Capital work in progress include Rs. Nil (March 31, 2011 10,104,849 ) being borrowing cost capitalised in accordance with Accounting Standard AS-16 on "Borrowing Cost" as specified in the Companies Accounting Standard Rules 2006.
6. The above includes the amount of Land of Rs, 15,954,319 & Building of Rs. 14,890,483 situated at Narshingpur, Tehsil District gurgaon for which the company has executed an agreement for the construction of commercial project with DLF Retail Developers Ltd. on 30th November,2007. However, as certified by the management, the work has not strarted during the financial year 2011-12.

**Note 11 : Non Current Investments**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Trade investments (Valued at Cost, unless stated otherwise)** | | |
| **Investments in Equity instruments in Subsidiaries-Unquoted** | | |
| Pearl Global Ltd. (since merged with the company) | | |
| Nil (March 31, 2011: 22,394,00 ) Redeemable Preference Shares of Rs. 100/- each | – | 223,940,000 |
| Nil (March 31, 2011: 4,969,588) Equity Shares of Rs.10/- each fully paid up | – | 3,413,870 |
| Pearl Global Far East Ltd, Hong Kong | | |
| 413,000 (March 31, 2011: 413,000) Equity Shares of USD 1/- Each fully paid up | 25,337,434 | – |
| Norp Knit Industries Limited, Bangladesh | | |
| 2,415,587 (March 31, 2011: 2,415,587) Equity Shares of Taka 100 Each fully paid up | 155,915,393 | 155,915,393 |
| Multinational Textiles Group Limited, Mauritius | | |
| 21,948,270 (March 31, 2011: 21,948,270) Equity Shares of USD 1 each fully paid up | 1,005,025,338 | 1,005,025,338 |
| House of Pearl Fashions (U.S.) Limited. | | |
| 100 (March 31, 2011: 100) without par value fully paid up shares | 36,426,274 | 36,426,274 |
| Lerros Fashions India Limited, India | | |
| 16,483,487(March 31, 2011: 16,483,487) equity shares of Rs.10 each fully paid up | 164,834,870 | 164,834,870 |
| Pearl Global (HK) Limited, Hong Kong | | |
| 10,000 (March 31, 2011: Nil) equity shares of USD 1 each fully paid up | 447,075 | – |
| PDS Multinational Limited, India | | |
| 50,000 (March 31, 2011: Nil) equity shares of Rs. 10/- each fully paid up | 500,000 | – |
| Investment in partnership firm Hopp Fashion, India (Refer Note 30) | 32,804,933 | 41,506,777 |
| Lerros Fashions India Ltd. | | |
| 6,000,000 (March 31, 2011: 3,990,000) Preference shares of Rs. 10 each fully paid up | 60,000,000 | 39,900,000 |
| | 1,481,291,317 | 1,670,962,522 |
| **Non-trade investments (Valued at Cost, unless stated otherwise)** | | |
| Investments in Government securities | 4,000 | – |
| - National Saving Certificate (NSC) | | |
| (Pledged with Sales Tax Authorities) | 4,000 | – |
| | 1,481,295,317 | 1,670,962,522 |

Aggregate book value of quoted investment is Rs. Nil (March 31, 2011: Rs. Nil)

Aggregate market value of quoted investment is Rs. Nil (March 31, 2011: Rs. Nil)

Aggregate amount of unquoted investment is Rs. 1,481,295,317 (March 31, 2011: Rs. 1,670,962,522)

**Note 12 : Deferred tax assets (net)**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Unabsorbed depreciation/losses to be carried forward on Income Tax Basis | 118,789,660 | 91,714,778 |
| Impact of expenditure charged to the statement of profit and loss in the current year but allowed for tax purposes on payment basis | 12,069,347 | 1,845,801 |
| **Total A** | 130,859,007 | 93,560,579 |
| **Deferred Tax Liabilities** | | |
| Fixed assets: Impact of difference between tax depreciation and depreciation/ amortization charged for the financial reporting | 120,849,681 | 28,194,550 |
| Others | 9,426,643 | – |
| **Total B** | 130,276,324 | 28,194,550 |
| Deferred tax asset/(liability) (net) | 582,683 | 65,366,030 |

**Note 13 : Loans and advances**

(Amount in Rupees)

| | Non Current | | Current | |
|---|---|---|---|---|
| | March 31, 2012 | March 31, 2011 | March 31, 2012 | March 31, 2011 |
| **Capital Advances** | | | | |
| Unsecured, Considered Good * | 3,518,281 | 326,583 | – | – |
| Security Deposits | | | | |
| Secured, Considered Good | 12,599,177 | 2,160,000 | – | – |
| **Loan and advances to related parties** | 424,977,322 | 781,743,764 | – | 27,778,525 |
| Unsecured - Considered Good (Note 32) | | | | |
| **Share Application Money** | 38,011,199 | 63,121,869 | – | – |
| **Other Loans and Advances** | | | | |
| Advance Tax ( Net of Provision) | 65,466,892 | 27,505,616 | – | – |
| Unsecured - Considered Good | | | | |
| Prepaid Expenses | – | – | 17,820,690 | 3,950,881 |
| Loans to Employees | – | – | 4,713,568 | 702,149 |
| MAT Credit Entitlement | 18,150,899 | – | – | – |
| Others | – | – | 117,320,208 | 28,935,717 |
| | 562,723,770 | 874,857,832 | 139,854,466 | 61,367,272 |

* Capital Advance includes Rs. 326,583 paid to DDA for converting its leasehold land into freehold land.

**Note 14 : Other Assets**

(Amount in Rupees)

| | Non Current | | Current | |
|---|---|---|---|---|
| | March 31, 2012 | March 31, 2011 | March 31, 2012 | March 31, 2011 |
| **Trade Receivables** | | | | |
| Unsecured - Considered Good (Note 16) | 10,216,286 | – | – | – |
| **Non Current Bank Balances** | | | | |
| Fixed Deposit with banks (Note 17) | 16,836,300 | – | – | – |
| Interest accrued but not due | 1,431,269 | – | – | – |
| | 18,267,569 | – | – | – |
| **Other Current Assets** | | | | |
| Export Incentive Receivable | – | – | 110,732,965 | 134,203 |
| Interest accrued but not due | – | – | 5,651,008 | 486,577 |
| | – | – | 116,383,973 | 620,780 |
| | 28,483,855 | – | 116,383,973 | 620,780 |

**Note 15 : Inventories**
**(as taken, valued and certified by management)**

(Amount in Rupees)

| | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|
| Raw materials | 372,445,891 | – |
| Work In Progress | 125,749,249 | – |
| Finished Goods | 647,151,079 | – |
| Stock in trade (in respect of goods acquired for trading) | 1,844,097 | – |
| Stores and spares | 7,937,515 | – |
| | 1,155,127,831 | – |

**Note 16 : Trade receivables and other assets**

(Amount in Rupees)

| | Non Current | | Current | |
|---|---|---|---|---|
| | March 31, 2012 | March 31, 2011 | March 31, 2012 | March 31, 2011 |
| Outstanding for the period exceeding six months from the date they are due for payment | | | | |
| Unsecured, considered good | 10,216,286 | – | 67,332,009 | 32,538,397 |
| Unsecured, considered Doubtful | – | – | 578,893 | – |
| | 10,216,286 | – | 67,910,902 | 32,538,397 |
| Less: Provision for doubtful recievables | – | – | (578,893) | – |
| | 10,216,286 | – | 67,332,009 | 32,538,397 |
| Others | | | | |
| Unsecured - Considered Good (Note 32) | – | – | 606,754,764 | – |
| Amount disclosed under "Other Non Current asset" (Note 14) | (10,216,286) | – | – | – |
| | – | – | 674,086,773 | 32,538,397 |

**Note 17 : Cash and Bank balances**

(Amount in Rupees)

| | Non Current | | Current | |
|---|---|---|---|---|
| | March 31, 2012 | March 31, 2011 | March 31, 2012 | March 31, 2011 |
| **Cash and Cash Equivalents** | | | | |
| Balance with Banks :- | | | | |
| - EEFC account | – | – | 66,486,340 | 2,015,529 |
| - On Current accounts | – | – | 80,150,880 | 15,044,101 |
| - On unpaid dividend | – | – | 563,549 | 80,985 |
| Cash on hand | – | – | 848,782 | 227,222 |
| Cheque/drafts on hand | – | – | 228,934 | – |
| | – | – | 148,278,485 | 17,367,836 |
| **Other Balances** | | | | |
| Balance with bank | | | | |
| - Deposits with original maturity of more than 12 months* | 16,836,300 | – | 171,364,551 | 26,000,000 |
| - Deposits with original maturity for more than 3 months but less than 12 months* | – | – | 690,254 | 16,600,000 |
| - Margin money Deposit | – | – | 1,850,000 | - |
| | 16,836,300 | – | 173,904,805 | 42,600,000 |
| Amount disclosed under "Other Non-current asset" (Note 14) | (16,836,300) | – | – | – |
| | – | – | 322,183,290 | 59,967,836 |

*Deposits of Rs. 188,891,105 (March 31, 2011: Rs. NIL) are pledged as security with various banks

## Notes to the Statement of Profit and Loss Account for the year ended March 31, 2012

**Note 18 : Revenue from operations**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Sale of Product | 6,131,257,135 | 225,450,975 |
| Export Incentive | 246,587,249 | 445,780 |
| Other Operating Income | 26,023,823 | 21,413,136 |
| Job Receipts | 63,135,105 | – |
| Total | 6,467,003,311 | 247,309,891 |
| **a) Details of Products Sold** | | |
| Manufacturing - Garments | 3,374,146,169 | – |
| Traded - Garments | 2,600,011,369 | 225,450,975 |
| Fabric | 104,693,850 | – |
| Software | 16,635,418 | – |
| Others | 35,770,328 | – |
| | 6,131,257,135 | 225,450,975 |
| **b) Other operating income** | | |
| Claims | 13,715,127 | – |
| Design & sampling charges | 12,308,696 | 21,413,136 |
| | 26,023,823 | 21,413,136 |
| **c) Earnings in Foreign Exchange** | | |
| Export of Goods- FOB basis | 6,088,902,841 | – |
| Interest Income | 13,229,155 | – |
| SAP/Management Charges | 13,395,399 | – |
| Designing Income | 12,308,696 | – |
| | 6,127,836,091 | – |

**Note 19 : Other Income**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Interest Income* | 49,224,485 | 67,717,845 |
| Dividend Income from non-trade investments | 7,575 | – |
| Sap Facility Income | 9,506,895 | 9,117,484 |
| Management Fee | 3,888,504 | 2,936,902 |
| Rental Income | 20,159,265 | 2,803,500 |
| Profit from Investments in Partnership Firms/associates | 1,798,156 | (1,126,277) |
| Foreign Exchange Fluctuation | 5,495,101 | 16,489,657 |
| Miscellaneous Income | 3,263,244 | – |
| | 93,343,224 | 97,939,111 |
| ***Interest Income:** | | |
| Interest on Fixed Deposit with banks | 22,314,312 | 1,945,403 |
| Interest on Loan (other) | 26,910,173 | 65,772,443 |
| | 49,224,485 | 67,717,845 |

**Note 20 : Cost of Material Consumed***

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| **Raw Material** | | |
| Inventory at the beginning of the year | 645,094,292 | – |
| Add:- Purchases | 1,431,102,700 | – |
| Less:- Cost of Goods Sold | 112,742,846 | – |
| | 1,963,454,146 | – |
| Less:- Inventory at the end of the year | 364,669,223 | – |
| Cost of Material consumed | 1,598,784,923 | – |

* Raw material consumed comprises yarn, fabrics and garments accessories

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| **a) Details of Imported and Indigenous Raw materials Consumed** | | |
| Indigenous | **1,411,212,182** | – |
| | **88.27%** | |
| Imported | **187,572,741** | – |
| | **11.73%** | |
| | **1,598,784,923** | – |
| **b) CIF value of Imports** | | |
| Raw Material | **285,162,249** | – |
| Capital Goods | **933,156** | – |
| Garments | **1,375,567,615** | – |
| | **1,661,663,020** | – |

**Note 21 : Purchase of Stock in Trade**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Finished Goods Purchased | **2,446,850,968** | 202,331,243 |
| | **2,446,850,968** | 202,331,243 |
| **Details of Cost of Goods Traded** | | |
| Readymade Garments | **2,334,108,122** | – |
| Fabric | **91,592,457** | – |
| Others | **21,150,389** | – |
| | **2,446,850,968** | – |

**Note 22 : Increase/(decrease) in inventories**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| **Inventories at the beginning of the year** | | |
| – Work-in-progress | **131,279,351** | – |
| – Finished goods | **735,763,706** | – |
| | **867,043,057.20** | – |
| **Inventories at the end of the year** | | |
| – Work-in-progress | **125,749,249** | – |
| – Finished goods | **647,151,079** | – |
| | **772,900,327.85** | – |
| | **94,142,729** | – |
| **a) Details of Inventory** | | |
| **Work in progress** | | |
| Garments | **125,749,249** | – |
| Finished goods | | |
| Garments | **647,151,079** | – |

**Note 23 : Employee Benefit expense**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Salaries & Wages | **485,388,062** | 44,445,813 |
| Gratuity | **6,873,673** | 484,314 |
| Contribution to Provident and Other fund | **30,996,539** | 1,041,262 |
| Staff Welfare Expenses | **15,967,132** | 831,105 |
| | **539,225,406** | 46,802,494 |

**Employee Benefits**

The Company has classified the various benefits provided to employees as under:-

**(i) Defined Contribution Plan**

The company makes contribution towards provident fund to a defined contribution retirement benefit plan for qualifying employees. The provident fund plan is operated by the Regional Provident Fund Commissioner and the company is required to contribute a specified percentage of payroll cost to the retirement benefit schemes to fund the benefits.

The company recognized Rs. 20,239,167.44 (Previous Year: Rs. 1,041,262) for provident fund contributions in the profit and loss account. The contributions payable to these plans by the company are at rates specified in the rules of the schemes.

**(ii) Defined Benefit Plan**

The present value of obligation is determine based on actuarial valuation using the Projected Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligations. The obligation for leave encashment is recognized in the same manner as gratuity.

**(a) Reconciliation of opening and closing balances of Defined Benefit Obligations**

| | Current Year | | | Previous Year | |
|---|---|---|---|---|---|
| | Gratuity (Funded) | Gratuity (Unfunded) | Earned Leave (Unfunded) | Gratuity (Funded) | Earned Leave (Unfunded) |
| Defined benefit obligations at beginning of the year | 23,414,015 | 5,442,441 | 11,518,568 | 2,763,497 | 1,877,119 |
| Interest Cost | 1,873,121 | 462,607 | 979,079 | 221,080 | 150,170 |
| Service Cost | 5,489,400 | 1,768,778 | 3,957,336 | 681,312 | 665,979 |
| Benefits Paid | (7,188,551) | (1,185,852) | (7,850,498) | (201,929) | (641,335) |
| Gain / Loss | 28,037 | (1,669,761) | 3,278,059 | (157,442) | (80,029) |
| Defined benefit obligations at year end | 23,616,022 | 4,818,213 | 11,882,544 | 3,306,518 | 1,971,904 |

**(b) Reconciliation of opening and closing balances of fair value of plan assets**

| | Current Year | | | Previous Year | |
|---|---|---|---|---|---|
| | Gratuity (Funded) | Gratuity (Unfunded) | Earned Leave (Unfunded) | Gratuity (Funded) | Earned Leave (Unfunded) |
| Fair value of plan assets at beginning of the year | 10,674,150 | N.A | N.A | 2,050,824 | N.A |
| Expected Return on plan assets | 1,078,509 | – | – | 184,574 | – |
| Contributions | 5,027,114 | – | – | 1,092,284 | – |
| Benefits Paid | (7,188,551) | – | – | (201,929) | – |
| Actuarial gain/(loss) on plan assets | – | – | – | 76,062 | – |
| Fair value of plan assets at the year end. | 9,591,222 | N.A | N.A | 3,201,815 | N.A |

**(c) Reconciliation of fair value of assets and obligations**

| | Current Year | | | Previous Year | |
|---|---|---|---|---|---|
| | Gratuity (Funded) | Gratuity (Unfunded) | Earned Leave (Unfunded) | Gratuity (Funded) | Earned Leave (Unfunded) |
| Fair Value of plan assets as at the end of the period | 9,591,222 | 4,818,213 | – | 3,201,815 | – |
| Present Value of Obligation as at 31st March 2012 | 23,616,022 | – | 11,882,544 | 3,306,518 | 1,971,904 |
| Funded status/ Difference | (14,024,800) | (4,818,213) | (11,882,544) | (104,703) | – |
| Excess of actual over estimated | – | – | – | 76,062 | – |
| Net assets/(liability) recognized in balance sheet | (14,024,800) | (4,818,213) | (11,882,544) | (104,703) | (1,971,904) |

**(d) Expenses recognized during the year**

| | Current Year | | | Previous Year | |
|---|---|---|---|---|---|
| | Gratuity (Funded) | Gratuity (Unfunded) | Earned Leave (Unfunded) | Gratuity (Funded) | Earned Leave (Unfunded) |
| Current Service Cost | 5,489,400 | 1,768,778 | 3,957,336 | 681,312 | 665,979 |
| Interest Cost | 1,873,121 | 462,607 | 979,079 | 221,080 | 150,170 |
| Past Service Cost | – | – | – | 175,862 | – |
| Expected return on plan assets | (1,078,509) | – | – | (184,574) | – |
| Actuarial (Gain)/Loss | 28,037 | (1,669,761) | 3,278,059 | (409,366) | (80,029) |
| Net Cost | 6,312,049 | 561,624 | 8,214,474 | 484,314 | 736,120 |

**(e) Actuarial Assumptions**

| | Current Year | | Previous Year | |
|---|---|---|---|---|
| | Gratuity (Funded) | Earned Leave (Unfunded) | Gratuity (Funded) | Earned Leave (Unfunded) |
| Discount Rate (per annum) | 8.00% | 8.50% | 8.00% | 8.00% |
| Future increase in compensation | 6.00% | 6.00% | 5.50% | 5.50% |
| In Service Mortality | LIC (1994-96) | LIC (1994-96) | LIC (1994-96) | LIC (1994-96) |
| Retirement age | 58 Years | 58 Years | 58 Years | 58 Years |
| Withdrawal rates:- | | | | |
| -Upto 30 years | 3.00% | 3.00% | 3.00% | 3.00% |
| -Upto 44 years | 2.00% | 2.00% | 2.00% | 2.00% |
| -Above 44 years | 1.00% | 1.00% | 1.00% | 1.00% |

**Note 24 : Finance Cost**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Interest Expense | 137,737,480 | 5,482,454 |
| Other borrowing costs | 74,444,622 | 2,501,713 |
| | 212,182,101 | 7,984,167 |

**Note 25 : Other Expenses**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Manufacturing Expenses | 1,095,675,317 | 4,183,961 |
| Consumption of Stores & Spare Parts | 40,323,236 | – |
| Power & Fuel | 81,916,499 | 1,242,233 |
| Rent | 53,393,591 | 4,740,000 |
| Repair to buildings | 4,216,822 | – |
| Repair to machinery | 6,329,459 | 267,064 |
| Repair Others | 14,487,887 | 6,324,580 |
| Legal & Professional Charges | 31,621,856 | 9,333,223 |
| Inward Freight & Clearing Charges | 86,605,527 | 797,902 |
| Payment to the Auditors (Refer details below) | 2,880,413 | 894,454 |
| Other Expenses | 154,579,591 | 28,828,519 |
| | 1,572,030,198 | 56,611,936 |
| **a) Payment to Auditors** | | |
| **As Auditor:** | | |
| Audit Fees | 1,050,000 | 650,000 |
| Tax Audit Fees | 250,000 | 120,000 |
| **In other Capacity:** | | |
| Other Matters | 1,311,435 | 45,144 |
| Service Tax | 268,978 | 79,310 |
| | 2,880,413 | 894,454 |
| **b) Expenditures in Foreign Currency** | | |
| Foreign Travelling | 1,886,093 | – |
| Others | 5,019,375 | – |
| | 6,905,468 | – |
| **c) Details of Imported and Indigenous Stores Consumed** | | |
| Indigenous | 40,323,236 | 46,248,974 |
| | 40,323,236 | 46,248,974 |

**Note 26 : Exceptional Items**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Disposals of items of fixed assets | (25,696,357) | 83,333 |
| | (25,696,357) | 83,333 |

**Note 27 : Extraordinary Items**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Loss on disposal of a Subsidiary | – | 292,383,045 |
| | – | 292,383,045 |

**Note 28 : Earning per share (EPS)**

(Amount in Rupees)

| | For the Year Ended March 31, 2012 | For the Year Ended March 31, 2011 |
|---|---|---|
| Profit /(Loss) attributable to the equity shareholders | 36,636,024 | (238,072,682) |
| Number/weighted average number of equity shares outstanding at the end of the year | 21,663,937 | 19,500,343 |
| Nominal value of Equity shares | 10 | 10 |
| Basic/Diluted Earning per share | 1.69 | (12.21) |

**Note 29: Contingent Liabilities and Commitments**

**a) Contingent Liabilities**

1 Corporate Guarantee given by the company to UCO Bank, Hong Kong for securing trade finance limits to its step down subsidiary Norwest Industries Ltd, Hong Kong for HKD 300 million equivalent to Rs. 2,004,000,000/-& GBP 40 Million equivalent to Rs. 3,272,000,000/-( Previous Year: HKD 280 million equivalent to Rs.1,626,800,000 & GBP 30 Million equivalent to Rs.2,157,900,000 ).

2 Corporate Guarantee given by the company to HSBC Limited, Indonesia for securing credit facilities to its step down subsidiary PT Norwest Industry, Indonesia for USD 2,500,000/- equivalent to Rs. 127,900,000/- (Previous Year: USD 2,500,000/- equivalent to Rs. 111,625,000 ).

3 Corporate Guarantee given by the company to THE CIT GROUP / COMMERCIAL SERVICES INC, New York for working capital and letter of credit facilities to its wholly owned subsidiary M/s House of Pearl Fashions (US) Ltd for USD 400,000 equivalent to Rs. 20,464,000/- (Previous Year: USD 400,000 equivalent to Rs. 17,860,000).

4 Corporate Guarantee given by the company to HSBC, Hong Kong for HKD 330 Million, equivalent to Rs 2,204,400,000/- for securing credit facilities to its step down subsidiaries Norwest Industries Ltd., Simple Approach Ltd. and Zamira Fashion Ltd (Previous Year:- HKD 300 Million, equivalent to Rs. 1,743,000,000 ).

5 Corporate Guarantee given by the company to Standard Chartered Bank, Hong Kong for USD 25,800,000 equivalent to Rs. 1,319,928,000/- for securing credit facilities to its step down subsidiary Norwest Industries Ltd(Previous Year: USD 16,928,000 equivalent to Rs. 755,835,200).

6 Corporate guarantee given by the company to HSBC, Bangladesh for BDT 1,673,367,000 equivalent to Rs. 1,037,487,540/- for securing various credit facilities to its subsidiary Norp Knit Industries Ltd (Previous Year: BDT 889,760,000 equivalent to Rs. 542,753,600).

7 Corporate Guarantee given by the company to THE CIT GROUP / COMMERCIAL SERVICES INC, New York for credit facilities to its subsidiary Depa International Inc. merged with House of Pearl Fashions (US) Ltd, a wholly owned subsidiary for USD 1,000,000 equivalent to Rs. 51,160,000/- (Previous Year: 1,000,000 equivalent to Rs.44,650,000).

8 Corporate Guarantee given by the company to BNP Paribas, Hong Kong for letter of credit facility to its step down subsidiary Norwest Industries Ltd. for USD 8,500,000 equivalent to Rs. 43,486,000/- (Previous Year: USD 6,250,000 equivalent to Rs.279,062,500).

9 Corporate Guarantee given by the company to Canara Bank, Hong Kong Branch, for securing various credit facilities to its subsidiary Norwest Industries Ltd. for USD 15,000,000 equivalent to Rs. 767,400,000/-. (Previous Year: USD 3,000,000 equivalent to Rs. 133,950,000).

10 Corporate Guarantee given by the company to Bank of Baroda, Hongkong, for securing credit facilities to its step down subsidiary Simple Approach Ltd. for Nil (Previous Year: USD 4,000,000 equivalent to Rs.178,600,000 ). – EXPIRED ON 21.07.2011.

11 Corporate Guarantee given by the company to Bank of Baroda, Hongkong, for securing credit facilities to its step down subsidiary Norwest Industries Ltd. for USD 15,000,000 equivalent to Rs. 767,400,000/-(Previous Year: USD 5,000,000 equivalent to Rs.223,250,000).

12 Corporate Guarantee given by the company to Bank of India, Hongkong Branch for securing credit facilities to its step down subsidiary Simple Approach Ltd. for USD 2,500,000 equivalent to Rs.127,900,000/-(Previous Year: USD 2,500,000 equivalent to Rs.111,625,000).

13 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Norwest Industries Ltd. for Nil (Previous year USD 18,000,000 equivalent to Rs.803,700,000 ) –Cancelled during the year.

14 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Simple Approach Ltd. for Nil (Previous Year: USD 3,000,000 equivalent to Rs.133,950,000). –Cancelled during the year.

15 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Zamira Fashion Ltd. for Nil. (Previous Year: USD 3,000,000 equivalent to Rs.133,950,000 ). –Cancelled during the year.

16 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong, Branch for securing credit facilities to its step down subsidiary Nor Lanka Manufacturing Ltd. for USD 6,000,000 equivalent to Rs. 306,960,000/- (Previous Year: USD 6,000,000 equivalent to Rs.267,900,000).

17 Corporate Guarantee given by the company to ICICI Bank Limited, Hong Kong Branch, for securing the derivative limits to its step down subsidiary Norwest Industries Ltd. for USD 3,000,000 equivalent to Rs. 153,480,000 (Previous Year: NIL).

18 Corporate Guarantee given by the company to ICICI Bank Limited, Hong Kong Branch, for securing the credit limits to its step down subsidiary Norwest Industries Ltd. and Nor Lanka Manufacturing Limited for USD 15,000,000 equivalent to Rs. 767,400,000/- (Previous Year: NIL).

19 Corporate Guarantee given by the company to Punjab National Bank, Hong Kong Branch, for securing the credit limits to its step down subsidiary Norwest Industries Ltd. for USD 30,000,000 equivalent to Rs. 1,534,800,000/-. (Previous Year: NIL).

20 Corporate Guarantee given by the company to Intesa Sanpaolo S.p.A, Hongkong Branch for securing credit facilities to its step down subsidiary Norwest Industries Ltd. or Simple Approach Ltd. or Zamira Fashions Ltd, Hong Kong for USD 18,000,000 equivalent to Rs.920,880,000(Previous Year: Nil).

21 Claims against the Company not acknowledged as debts and other matters Rs. 1,061,474/-(Previous Year: Rs. NIL).

22 Export Bills Discounted with banks Rs. 380,521,957/- (Previous Year Rs. NIL/-).

23 Irrevocable letter of credit outstanding with banks Rs. 851,898,710 (Previous Year NIL).

24 Bank Guarantee given to government authorities Rs. 55,002,000 (Previous Year Rs. NIL).

25 Counter Guarantees given by the company to the Sales Tax Department for its associates company Rs.100,000/-(Previous Year:NIL), for others Rs.50,000/-( Previous Year:Rs.NIL).

**b) Commitments**

1 Estimated amount of contracts remaining to be executed on capital account (net of advances); Rs. 2,554,365 (March 31, 2011: Rs. Nil).

**Note 30: The Company is a partner of M/s Hopp Fashion and has the following interest in the firm.**

| | % of Share | | Profit/(Loss) during the | | Capital at the end of | |
|---|---|---|---|---|---|---|
| Name of the partner | Current Year | Previous Year | Current Year | Previous Year | Current Year | Previous Year |
| Mrs. Payal Seth | 25% | Nil | – | – | 1,699,369 | – |
| Deepak Seth & Sons (HUF) | Nil | 25% | 599,385 | (375,426) | – | 1,079,984 |
| House of Pearl Fashions Limited | 75% | 75% | 1,798,156 | (1,126,277) | 32,804,933 | 41,506,777 |
| Pulkit Seth | 0% | 0% | – | – | 20,000 | – |
| Total | 100% | 100% | 2,397,541 | (1,501,703) | 34,524,302 | 42,586,761 |

**Note 31 Scheme of Arrangement**

During the current year, consequent upon sanction of Scheme of Amalgamation of Pearl Global Limited (`Transferor Company`) with the Company ('Transferee Company'), as approved by the Hon'ble High Court of Delhi vide its Order dated 11th November, 2011 u/s 394 of the Companies Act, 1956 and necessary filing of said Order with the Registrar of Companies, NCT of Delhi & Haryana on 19th January, 2012 being the `Effective Date` when the scheme has become effective, the Transferor Company has been merged with the company and the financial statements of the merged company have been prepared in accordance with the relevant clauses of the said scheme as under:-

a) Upon the Scheme became effective, the entire business of Transferor Company including all property, assets and liabilities stand transferred to and vested in the Company with effect from 1st April 2010 being the "Appointed Date.

b) The amalgamation has been accounted for under the "pooling of interest" method as prescribed by the Accounting Standard (AS-14) of the Company (Accounting Standards) Rules, 2006. Accordingly, the assets, liabilities and reserves of transferor companies as at close of business on 31st March 2010 have been recorded in the company at the same values. There is no difference in Accounting Policies between transferor Company and the company; hence no material adjustments have been made.

c) The scheme inter alia provided for issuance of two fully paid up equity shares of face value of Rs. 10 each of Transferee Company to the share holders of Transferor Company for every three equity shares of face value of Rs. 10 each held in Transferor Company.

d) All inter-company balances between the Transferor Company and the company have been eliminated without any further obligations or rights in this behalf.

e. In view of the aforesaid amalgamation became effective during the current year, the previous year's figures of the company represent those of prior to the merger of Transferor Company. Therefore, the figures for the current year are not comparable with those of the previous year.

**Note 32 : Disclosure of Related parties/ Related parties transactions :**

**A Name of the Related Parties and description of relationship**

| Nature of Relationship | Concerns | Country of Incorporation |
|---|---|---|
| Subsidiary Companies | **DOMESTIC** | |
| | Pearl Global Limited# | India |
| | Lerros Fashions India Ltd. | India |
| | PDS Multinational Fashions Ltd. | India |
| | OVERSEAS | |
| | Norp Knits Industries Limited | Bangladesh |
| | House of Pearl Fashions (US) Limited, | USA |
| | Multinational Textile Group Limited | Mauritius |
| | Global Textiles Group Limited | Mauritius |
| | Pacific Supply Chain Limited* | UK |
| | Zamira Fashions (Europe) Limited* | Hong Kong |
| | Poeticgem Limited | UK |
| | Pacific Logistics Limited | UK |
| | FX Imports Company Limited | UK |
| | Magic Global Fashion Ltd.* | UK |
| | Poetic Knitwear Limited | UK |
| | Norwest Industries Limited | Hong Kong |
| | Zamira Fashion Limited | Hong Kong |
| | FX Import Hongkong Ltd. | Hong Kong |
| | PG Group Limited | Hong Kong |
| | PG Home Group Limited | Hong Kong |
| | Pearl GES Home Group SPA | Chile |
| | Pearl Global Fareast Limited | Hong Kong |
| | Simple Approach Limited | Hong Kong |
| | Poeticgem (Canada) Limited | Canada |
| | PT Norwest Industry | Indonesia |
| | Nor Delhi Manufacturing Limited | Hong Kong |
| | Nor Lanka Manufacturing Limited | Hong Kong |
| | Pearl Global (HK) Limited | Hong Kong |
| | Nor India Manufacturing Co. Limited | Hong Kong |
| | Grand Pearl Trading Limited | China |
| | Spring Near East Manufacturing Company Ltd | Hong Kong |
| | Razamtazz Limited | Mauritius |
| | Nahata Limited | UK |
| | Propur Invest Ltd. | UK |
| | Casa Forma Ltd. | UK |
| | Nor Europe MFG Co. Ltd. | Hong Kong |
| | Sino West MFG Co. Ltd. | Hong Kong |
| | PS Sourcing Ltd. | Hong Kong |

# Merged with Pearl Global Industries Limited (formerly House of Pearl Fashions Limited)

* Company's closure application filed during the year.

| | | |
|---|---|---|
| **Associates** | **DOMESTIC** | |
| | Hopp Fashions | India |
| | Pearl Wears | India |
| | Vastras | India |
| | Little People Education Society | India |
| | Pearl Retail Solutions Pvt Ltd | India |
| | Deepak Seth & Sons (HUF) | India |
| | Pearl Apparels Limited | India |
| | Vau Apparels Pvt Ltd | India |
| | Nim Int'l Commerce Pvt. Ltd. | India |
| | PS Arts Pvt. Ltd | India |
| | **OVERSEAS** | |
| | Pallas Holdings Limited | Mauritius |
| | SACB Holdings Limited | Mauritius |
| | JSM Trading (FZE.) | Dubai |
| | Lerros Moden GmbH | Germany |
| | Premier Fashion Garment JSC | Vietnam |
| | Superb Mind Holdings Limited | Mauritius |
| | Grupo Extremo SUR S.A | Chile |
| | Fru Holdings Ltd. | Mauritius |
| | NAFS Ltd. | UK |

| | | |
|---|---|---|
| **Key Management Personnel** | Mr. Deepak Seth | Chairman |
| | Mr. Pallak Seth | Vice Chairman |
| | Mr. Pulkit Seth | Managing Director |
| | Mrs. Shaifali Seth | Wholetime Director |
| | Mr. Vinod Vaish | Wholetime Director |

| | | |
|---|---|---|
| **Relatives** | Mrs. Payel Seth | |

**B. Disclosure of Related Parties Transactions:**

**(i) Subsidiary Companies**

| **Particulars** | **Current Year** | Previous Year |
|---|---|---|
| Purchase of goods | **1,209,026,209** | 47,097,726 |
| Sale of goods - Raw Material | **72,831,604** | 83,255,514 |
| Sale of Goods – Readymade Garments | **391,164,346** | – |
| Sale of Samples | **6,656,772** | – |
| Sale of Fixed Assets | **47,229,829** | – |
| Investment made | **60,947,075** | 255,371,365 |
| Loan given | **191,764,050** | – |
| Loan Received Back | **191,777,920** | – |
| Rent received | **96,000** | 120,000 |
| Expenses paid by us on their behalf | **56,111,820** | 10,835,989 |
| Expenses reimbursed | **46,593,471** | 2,409,065 |
| Management fee | **3,250,130** | 2,936,902 |
| Share application money given | **40,847,075** | 57,388,000 |
| Share Application money received back | **5,010,670** | – |
| Sap Income | **9,506,895** | 7,033,044 |
| Sampling Income | **12,308,695** | – |
| Advance given | **–** | 223,971,969 |
| Advance received | **–** | 120,338,806 |
| Advance recovered | **–** | 79,571,705 |
| Interest Income | **13,229,154** | 46,242,664 |

**Closing Balance**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Loan to subsidiary | **223,505,452** | 575,554,116 |
| Advance to subsidiaries/Others | **2,461,909** | 55,607,068 |
| Sundry Debtors | **978,600** | 10,097,407 |
| Interest Receivable | **–** | 28,211,038 |
| Others | **(281,462,281)** | – |

(ii) **Associates**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Advance Rent Paid | **–** | 1,860,000 |
| Rent Received | **1,034,728** | 2,012,625 |
| Rent Paid | **–** | 2,340,000 |
| Profit/(Loss) from partnership firm | **1,788,323** | (1,126,277) |
| Expenses paid by us on their behalf | **646,372** | – |
| Expenses reimbursed | **7,424,284** | 2,483,998 |
| Interest Income | **13,230,416** | 9,063,387 |
| Advance received | **250,000** | – |
| Sale of Software | **16,635,418** | |
| Investment | **10,500,000** | – |

**Closing Balance**

| | | |
|---|---|---|
| Advances/Others | **–** | 93,731,871 |
| Sundry Debtors | **30,653,483** | – |
| Loan | **181,425,180** | 176,405,545 |

(iii) **Key Management Personnel**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Remuneration to Managing Director | **6,506,723** | 4,809,360 |
| Loan From Directors | **25,000,000** | – |
| Loan Return Back | **2,500,000** | – |
| Interest Paid | **945,807** | – |

C. **Disclosure of related parties having more than 10% interest in each transaction in the ordinary course of business**

(i) **Subsidiary Companies**

| Particulars | Current Year | Previous Year |
|---|---|---|
| **Purchase of goods** | | |
| Norp Knits Industries Limited | **1,129,456,151** | 42,159,270 |
| Pearl Global Limited | **–** | 4,938,456 |
| **Sale of goods - Raw Material** | | |
| Norp Knit Industries Ltd | **68,641,879** | – |
| **Sale of goods - Readymade Garments** | | |
| Nor Lanka Manufacturing | **188,297,858** | – |
| Norwest Industries Ltd | **194,705,136** | – |
| House of Pearl Fashions (US) Ltd | **5,720,996** | 56,501,749 |
| Simple Approach | **–** | 26,753,765 |
| **Sale of Fixed Assets** | | |
| Norp Knit Industries Ltd | **47,229,829** | – |
| **Investments Made** | | |
| Lerros Fashion India Limited | **60,000,000** | 32,589,330 |
| Multinational Textile Group Ltd | **–** | 88,865,486 |
| Norp Knit Industries Ltd | **–** | 124,036,625 |
| House of Pearl Fashions Ltd | **–** | 9,879,924 |
| **Loan Given** | | |
| Pearl Global (HK) Ltd | **191,764,050** | – |
| **Loan Received Back** | | |
| Multinational Textiles Group Ltd | **191,777,920** | – |
| **Rent Received** | | |
| Lerros Fashions | **96,000** | – |
| Pearl Global Limited | **–** | 120,000 |
| **Expenses paid by us on their behalf** | | |
| Norwest Industries Limited | **25,078,584** | – |
| Poeticgem Limited | **813,629** | 4,988,025 |
| Norp Knit Industries Ltd. | **4,526,780** | 4,988,025 |
| House of Pearl Fashions (US) Ltd | **24,166,976** | – |
| Pearl Global Limited | **–** | 4,988,025 |
| **Expenses Reimbursed** | | |
| Norwest Industries | **19,503,663** | – |
| Norp Knit Industries Ltd | **4,622,648** | 657,482 |
| Simple Approach | **5,090,366** | – |
| House of Pearl Fashions (US) Ltd | **16,210,428** | – |
| Pearl Global Limited | **–** | 1,230,568 |
| Poeticgem | **–** | 351,715 |
| **Share Application Money Given** | | |
| Lerros Fashion India Ltd. | **39,900,000** | 25,200,000 |
| Norp Knit Industries Ltd | **–** | 32,188,000 |
| **Sap Income** | | |
| Norwest Industries Limited | **4,331,340** | 3,216,564 |
| Poeticgem Limited | **2,930,400** | 2,153,151 |
| House of Pearl Fashion ( US ) Ltd | **902,362** | 6,701,118 |
| **Corporate Fees** | | |
| Norpknit Industries Limited | **3,250,130** | 2,936,902 |
| Share Application Money Received Back | | |
| Lerros Fashions | **5,010,670** | – |
| **Sale of Samples** | | |
| House of Pearl Fashions (US) Ltd | **6,471,598** | – |
| **Interest Income** | | |
| Pearl Global Limited (HK) Ltd | **7,824,234** | – |
| Multinational Textiles Group Ltd. | **4,294,321** | 9,727,681 |
| Nor Pearl Knitwear | **–** | 3,870,713 |
| Pearl Global Limited | **–** | 31,545,097 |
| **Sampling Income** | | |
| Norwest Industries Limited | **12,308,695** | – |
| **Advance Given** | | |
| Pearl Global Limited | **–** | 223,971,969 |
| **Advance Received** | | |
| Pearl Global Limited | **–** | 120,338,806 |
| **Advance Recovered** | | |
| Pearl Global Limited | | 79,571,705 |
| **Closing Balance** | | |
| Lerros Fashions | **2,346,199** | |
| Nor Lanka Manufacturing | **978,600** | |
| Norp Knit Industries Limited | **(63,927,061)** | |
| Norwest Industries Ltd | **(6,259,162)** | |
| Pacific Logistics | **(4,061,919)** | |
| Pearl Global Far East Ltd | **(9,821,165)** | |
| Pearl Global (HK) Ltd. | **199,588,284** | |
| Poeticgem | **(7,228,500)** | |
| PT Norwest Industries Ltd | **(181,142,702)** | |

| Particulars | Current Year | Previous Year |
|---|---|---|
| Simple Approach | **(1,427,591)** | |
| House of Pearl Fashions (US) Ltd | **(7,594,181)** | |
| PDS Multinational Fashions Ltd | **115,710** | 403,883,398 |
| Pearl Global Limited | | 179,304,956 |

(ii) **Associates**

| Particulars | Current Year | Previous Year |
|---|---|---|
| **Rent Received** | | |
| Little People Education Society | **1,034,728** | 2,012,625 |
| **Rent Paid** | | |
| Little People Education Society | **–** | 2,340,000 |
| **Profit/(Loss )from partnership firm** | | |
| HOPP Fashions | **1,788,323** | (1,126,277) |
| **Investment** | | |
| Hopp Fashions | **10,500,000** | |
| **Expenses Reimbursed** | | |
| Hopp Fashions Little People Education Society | **7,424,284** | – |
| **Expenses Recovered** | | |
| Nim International Commerce Pvt Ltd | **543,312** | – |
| Vau Apparels Pvt Ltd | **103,060** | – |
| Pearl Academy of Fashion | **–** | 134,911 |
| Little People Education Society | **–** | 2,355,998 |
| **Sale of Software** | | |
| Lerros Moden GmbH | **16,635,418** | – |
| **Interest Income** | | |
| Little People Education Society | **13,230,416** | 9,063,387 |
| **Advance Received** | | |
| Vau Apparels Pvt Ltd | **250,000** | – |
| **Advance Rent Paid** | | |
| Little People Education Society | **–** | 1,860,000 |
| **Closing Balance** | | |
| Little People Education Society | **181,425,180** | 206,189,648 |
| HOPP Fashions | **32,795,101** | 41,506,777 |
| Lerros Moden GmbH | **7,537,902** | |
| Nim International | **1,201,529** | – |
| Vau Apparels Pvt Ltd | **21,914,051** | 22,440,991 |

(iii) **Key Management Personnel**

| Particulars | Current Year | Previous Year |
|---|---|---|
| **Remuneration to Managing Director/Whole Time Director** | | |
| Mr.Pulkit Seth | **4,838,160** | 4,809,360 |
| Ms. Shefali Seth | **806,360** | |
| Mr. Shelly Cherian | **657,103** | |
| Mr. Vinod Vaish | **201,500** | |
| **Loan From Directors** | | |
| Mr. Pulkit Seth | **25,000,000** | – |
| **Loan return back** | | |
| Mr. Pulkit Seth | **25,000,000** | – |
| **Interest Expenses** | | |
| Mr. Pulkit Seth | **945,807** | – |

**Note 33 : Leases**

**(a) Asset Given on Lease**

**(i) Minimum Lease Payments Receivables**

The company has given certain assets on operating lease and lease rent income amounting to Rs. 20,159,265/- (Previous Year Rs. 2,803,500) has been credited in Profit & loss Account. The future minimum lease payments receivables and detail of assets as at 31st March, 2012 are as follows

| | Current Year | Previous Year |
|---|---|---|
| Not later than 1 year | **36,682,020** | 2,803,500 |
| Later than 1 year but not later than 5 years | **122,894,256** | 9,498,084 |
| Later than 5 years | **–** | – |
| | **159,576,276** | 12,301,584 |

**(ii) Gross Investment on Leased Assets**

| | Current Year | Previous Year |
|---|---|---|
| Gross Investment on leased Assets | **129,469,988** | 2,808,329 |
| Accumulated Depreciation on Lease Assets as on 31st March, 2012 | **11,672,966** | 1,729,791 |
| Depreciation Charged During the Year | **3,044,159** | – |

**(b) Asset Taken on Lease**

**(i) Minimum Lease Payments Payables**

The company has taken certain assets on non-cancelable operating lease and lease rent charged to revenue amounting to Rs 53,393,591 (Previous Year Rs. 4,740,000). The details of future minimum lease payments is as under:

| | Current Year | Previous Year |
|---|---|---|
| Not later than 1 year | **41,164,940** | 4,332,000 |
| Later than 1 year but not later than 5 years | **95,713,037** | 6,451,500\ |
| Later than 5 years | **4,226,880** | 2,327,600 |
| | **141,104,857** | 13,111,100 |

**Note 34: Currency Derivatives**

The company utilizes currency derivatives to hedge significant future transactions and cash flows and is a party to a variety of foreign currency contracts and options in the management of its exchange rate exposures.

The Company has no outstanding derivative financial instrument as at the balance sheet date except for forward currency contracts as below:

**Forward Currency Contracts – Cash Flow Hedges**

a) As at the balance sheet date, the total notional amounts of outstanding forward foreign exchange contracts that the company has committed to are as below:

| Particulars | Current Year USD | Previous Year USD |
|---|---|---|
| Forward Foreign Exchange Contract | **40,200,000** | NIL |
| | **(Equivalent to Rs. 1,964,675,750)** | (Equivalent to Rs. NIL) |

These commitments have been entered into to hedge against future payments to suppliers and receipts from customers in the ordinary course of business that will fall due in the period ending 31 March 2014.

b) The terms of the forward currency contracts has been negotiated to match the terms & commitments. The Cash Flow Hedges of the expected future sales in April 2012 to March 2014 value assessed at a loss of Rs. 150,831,448 (P.Y. Rs NIL) as on reporting date and this has been included in the hedging reserve.

These arrangements are designed to address significant exchange exposures and are renewed on a revolving basis as required.

**Note 35:** Pearl Global Industries Limited (Formerly House of Pearl Fashions Limited) has raised Rs. 2,854,335,000 through a public issue of shares during the financial year 2006-07, the proceeds of which are deployed as follows (on payment basis) :

| S. No. | Particulars | Amount (in Rs.) |
|---|---|---|
| 1 | Investment in subsidiary companies for increasing the Group's production capacity by : | |
| a. | Manufacturing Facilities at cost effective locations | 46,555,793 |
| b. | Expansion of a new bottom manufacturing facility by Pearl Global Limited at Madras Export Promotion Zone Tambaram | 25,000,000 |
| c. | Establishment of a new woven and knits manufacturing facility by PT Norwest Indonesia at Semarang, Indonesia | 5,969,250 |
| d. | Acquisition of an existing knitted garment Manufacturing facility by Pearl Global Limited in Khandsa Gurgaon Haryana, India | 54,000,000 |
| e. | New Manufacturing Facility by Norp Knit Industries Ltd./other subsidiaries or joint ventures companies at cost effective locations | 15,058,950 |
| 2 | Investment in Pearl Global Ltd for design center | 38,000,000 |
| 3 | Setting up an Integrated Information Technology System | 179,082,063 |
| 4 | Prepayment of certain term loans availed by the company and its subsidiaries | 492,374,989 |
| 5 | Investment in its subsidiary company, Multinational Textiles, for payment of purchase of SACB Holdings Limited and Pallas Holdings Limited as part of the Group restructuring. | 491,729,400 |
| 6 | Setting up a domestic branded apparel retail business | 229,845,540 |
| 7 | Acquisition of existing companies to set up joint ventures companies for marketing & distribution or whole sale and supply business in apparel, accessories or related segments within or outside India | 490,555,682 |
| 8 | Meeting Share Issue expenses | 191,950,492 |
| 9 | *Extended working capital & temporary loans to its subsidiaries as an interim use of funds. | 556,446,641 |
| 10 | Balance amount lying in the mutual funds and fixed deposits & Bank Balances | 37,766,199 |

*Payment of working capital loan of Rs. 200,000,000/- for its subsidiary Pearl Global Ltd. as an interim use of funds.

*Extended a working capital loans of Rs. 18,998,125/- on a rolling basis to its subsidiary House of Pearl Fashions (US) Ltd. as an interim use of funds.

*Extended a temporary loan of Rs. 65,651,922/- for working capital to its subsidiary Pearl Global Limited as an interim use of funds.

*Extended a temporary loan of Rs. 17,565,300/- for working capital to its subsidiary Pearl Global (HK) Limited as an interim use of funds.

*Extended a temporary loan of Rs. 83,170,000/- for working capital to its subsidiary Norp Knit Industries Ltd as an interim use of funds.

**Note 36:** In view of the management, the current assets, loans and advances have a value on realization in the ordinary courses of business at least equal to the amount, at which they are stated in the Balance Sheet as at 31st March, 2012.

**Note 37:** There is no reportable segment of the company in view of the Accounting Standard -17 'Segment Reporting' as issued by the Companies (Accounting Standards) Rules, 2006

**Note 38:** The name of the company has been changed to Pearl Global Industries Limited pursuant to a 'Fresh Certificate of Incorporation' dated 20th March 2012 issued by the Registrar of Companies, NCT of Delhi and Haryana.

**For & on behalf of Board of Directors**

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

Place: New Delhi
Date: 29th May, 2012

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

| Statement Regarding Subsidiary Companies Pursuant to Section 212 (3) and 212 (5) of Companies Act, 1956 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Name of the Subsidiary Company** | **Country** | **Financial Year to which accounts relates** | **Holding Co's Interest as at close of financial year of subsidiary company** | | **Net aggregate amount of subsidiary company's profits after deducting its losses or vice-versa, so far as it concerns members of Holding company which are not dealt within the company's account.** | | **Net aggregate amount of subsidiary company profit after deducting its losses or vice-versa, dealt within the company's accounts** | |
| | | | **Share Holding** | **Extent of Holding** | **For the current financial year Profit /(Loss) Amount** | **For the previous financial year Profit / (Loss) Amount** | **For the current financial year Profit/ (Loss) Amount** | **For the previous financial year Profit/ (Loss) Amount** |
| **Domestic :** | | | | | | | | |
| PDS Multinational Fashions Limited | India | 2011-12 | 50,000 Equity Shares of Rs. 10/- each | 100% | (126,740) INR | Nil | - | - |
| Lerros Fashions India Limited | India | 2011-12 | 16,483,487 Equity & 6,000,000 Preference Shares of Rs. 10/- each, respectively | 59.64% & 100% respectively | (29,756,999) INR | (70,897,018) INR | - | - |
| **Overseas :** | | | | | | | | |
| Norp Knit Industries Limited | Bangladesh | 2011-12 | 2,415,587 equity shares of Taka 100 each | 99.99% | 29,935,036 TK | 55,158,741 TK | - | - |
| House of Pearl Fashions (US) Ltd. | USA | 2011-12 | shares without par value | 78% | (195,037) USD | 86158 USD | - | - |
| Multinational Textile Group Limited | Mauritius | 2011-12 | 21,948,270 Equity Shares of USD 1 each fully paid up | 100% | 167,090 USD | 81,986 USD | - | - |
| Global Textile Group Limited # | Mauritius | 2011-12 | 5,771,556 Equity Shares of USD 1 each fully paid up | 100% | 1,1437 USD | (15,088) USD | - | - |
| Poeticgem Limited # | UK | 2011-12 | 50,000 Equity Shares of GBP 1 each fully paid up | 100% | 603,628 GBP | 314,028 GBP | - | - |
| Pacific Logistics Limited # | UK | 2011-12 | 10,000 Equity Shares of GBP 1 each fully paid up | 100% | 15,805 GBP | (61,122) GBP | - | - |
| Poeticgem (Canada) Limited # | Canada | 2011-12 | 100 Common Shares without par value | 100% | 102,096 USD | 85,797 USD | - | - |
| PT Norwest Industry # | Indonesia | 2011-12 | 14,998 Equity Shares of USD 10 each fully paid up | 99.87% | 329,965 USD | 308,663 USD | - | - |
| Norwest Industies Limited # | Hong Kong | 2010-11 | 1,020,000 Equity Shares of USD 1 each fully paid up | 85% | 42,300,323 HKD | 25,720,882 HKD | - | - |
| FX Import Company Limited # | UK | 2011-12 | 12,600 ordinary shares of 1 Pound each | 50% | 239,726 GBP | (156,449) GBP | - | - |
| Zamira Fashion Limited # | Hong Kong | 2011-12 | 167,500 shares of US$ 1 each | 67% | 2,095,903 HKD | (1,986,405) HKD | - | - |
| Simple Approach Limited # | HK | 2011-12 | 187,500 Ordinary Shares of USD 1 each | 75% | 8,981,550 HKD | 5,940,198 HKD | - | - |
| PG Group Limited # | HK | 2011-12 | 510,000 ordinary shares of USD 1 each | 51% | 803,470 USD | 315,189 USD | - | - |
| PG Home Group Limited # | HK | 2011-12 | 225,000 ordinary shares of USD 1 each | 90% | 68,952 USD | (8,931) USD | - | - |
| Pearl GES Home Group SPA # | Chile | 2011-12 | 1,000 shares without par value | 100% | (17,891,829) ChD | 59,832,136 ChD | - | - |
| Poetic Knitwear Ltd. # | UK | 2011-12 | 100 ordinary shares of GBP 1 each | 100% | 181,800 GBP | (452760) GBP | - | - |
| FX Import Hong Kong Ltd. # | Hong Kong | 2011-12 | 10,000 ordinary shares of HKD 1 each | 100% | 308,498 HKD | 475,191 HKD | - | - |
| Pearl Global Fareast Ltd. # | Hong Kong | 2011-12 | 535,000 ordinary shares of USD 1 each | 100% | 1,485,251 HKD | (534306) HKD | - | - |
| Nor Lanka Manufacturing Ltd. # | Hong Kong | 2011-12 | 10,000 shares of HKD 1 each | 100% | 24,229,538 HKD | 2,076,461 HKD | - | - |
| Razamtazz Limited # | Mauritius | 2011-12 | 1 Ordinary shares of GBP 1 each | 100% | (228,555) GBP | (6,126) GBP | - | - |
| SACB Holdings Limited # | Mauritius | 2011-12 | 50,000 Ordinary shares of USD 1 each | 51% | (13,295) USD | (8,940) USD | - | - |
| Nor India Manufacturing Company Ltd. | Hong Kong | 2011-12 | 10,000 Ordinary shares of USD 1 each | 100% | 856,273 HKD | Nil | - | - |
| Spring Near East Manufacturing Company Ltd. | Hong Kong | 2011-12 | 10,000 Ordinary shares of USD 1 each | 100% | (7,154,881) HKD | Nil | - | - |
| Casa forma Limited | UK | 2011-12 | 250,000 Ordinary shares of GBP 1 each | 100% | (285,684) GBP | Nil | - | - |
| Nor Delhi Manufacturing Limited | Hong Kong | 2011-12 | 200,000 Ordinary shares of HKD 1 each | 100% | 289376 HKD | Nil | - | - |

**For & on behalf of Board of Directors**

**(DEEPAK SETH)**
Chairman
DIN 00003021

**(PULKIT SETH)**
Managing Director
DIN 00003044

Place: New Delhi
Date: 29th May, 2012

**(SHAILENDRA SANCHETI)**
Chief Finance Officer

**(SANDEEP SABHARWAL)**
Company Secretary

## DIRECTORS' REPORT

The directors are pleased to present their report together with the audited financial statements of the Company and the Auditors' Report thereon for the year ended 31st March, 2012.

**Principal Activity**

The principal activity of the Company is manufacture of Ready Made garments at its factory located at Gazipur for 100% export.

**Results and dividend**

The company has suffered loss after tax of Tk. 55,158,741/- for the year as reflected in the audited financial statement.

The directors do not recommend the payment of any dividend for the year under review.

**Statement of Directors' responsibilities in respect of financial statements**

The directors are responsible for the preparation of financial statements, which complies with the Companies act 1994. In preparing those financial statements, the directors have:

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that are reasonable and prudent;
- Stated whether Bangladesh Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepared the financial statements on the going concern basis.

They are also responsible for safe guarding the assets of the Company and hence for taking reasonable steps for the prevention and detention of fraud and other irregularities.

By order of the Board

Sd/-
**Director**

**Date: May 10, 2012**

## Auditors' Report

To the Shareholders of Norp Knit Industries Ltd.

We have audited the accompanying Balance Sheet of **Norp Knit Industries Ltd.** as of 31 March, 2012 and the related Profit & Loss Account for the period of Twelve Months ended on 31 March, 2012 and Cash Flow Statement and Statement of Changes in Equity for the period then ended. The preparation of these statements is the responsibility of the Company's Management. Our responsibility is to express an independent opinion on these financial statements based on our audit.

We conducted our audit in accordance with Bangladesh Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, prepared in accordance with Bangladesh Accounting Standards, give a true and fair view of the state of the Company's affairs as of 31 March, 2012 and its Cash Flow for the period of Twelve Months ended on 31 March, 2012 and comply with the Companies Act, 1994 and other applicable laws and regulations.

We also report that:

(a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof;

(b) in our opinion, proper books of account as required by law have been kept by the company so far as it appeared from our examination of those books; and

(c) the company's Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account and returns.

**Sd/-**
**G Biswas & Co.**
**Chartered Accountants**
**Place : Dhaka**

**Date: 10th May, 2012**

## BALANCE SHEET AS AT 31 MARCH, 2012

| | NOTE | Amount in Taka<br>As on<br>31 March 2012 | As on<br>31 March 2011 |
|---|---|---|---|
| **Sources of fund** | | | |
| Shareholders' equity | | | |
| Share capital | 4 | **241,560,700** | 241,560,700 |
| Share Money Deposit | | **56,562,400** | 56,562,400 |
| Retained earnings | | **100,410,443** | 155,575,184 |
| | | **398,539,543** | 453,698,284 |
| **Long Term Liabilities** | | | |
| Loan from HSBC | 5 | **152,636,967** | 174,572,500 |
| | | **551,176,510** | 628,270,784 |
| **Application of fund** | | | |
| **Property, plant and equipment:** | | | |
| At cost less accumulated depreciation | 6 | **431,290,919** | 340,053,573 |
| **Current assets:** | | | |
| Goods in Transit | | **686,043** | 12,829,689 |
| Inventories | 7 | **422,273,651** | 312,746,837 |
| Trade receivables | 8 | **96,357,014** | 116,390,032 |
| Inter-company receivables | 9 | **305,545,390** | 189,853,858 |
| Advances, deposits and prepayments | 10 | **174,374,448** | 118,262,894 |
| Cash and bank balances | 11 | **115,459,057** | 31,232,419 |
| | | **1,114,695,603** | 781,315,729 |
| **Current liabilities:** | | | |
| Secured loan from HSBC Bank | | **237,325,988** | 58,030,892 |
| Trade and other payables | 12 | **617,868,077** | 304,723,924 |
| Inter-company payables | 13 | **145,615,946** | 130,343,702 |
| | | **1,000,810,011** | 493,098,518 |
| **Net current assets** | | **113,885,591** | 288,217,211 |
| **Deferred Tax** | | | |
| | | **551,176,510** | 628,270,784 |

Sd/-
Managing Director

Sd/-
Director

Sd/-
G. Biswas & Co.
Chartered Accountants
Dhaka, May10, 2012

## PROFIT AND LOSS ACCOUNT FOR THE TWELVE MONTHS ENDED ON MARCH 31, 2012

| | NOTE | 1 April 2011<br>To<br>31 March 2012 | 1 April 2010<br>To<br>31 March 2011 |
|---|---|---|---|
| Turnover | | **2,232,522,439** | 1,184,866,794 |
| Cost of goods sold | 14 | **(1,968,187,705)** | (996,807,505) |
| **Gross profit/(loss)** | | **264,334,734** | 188,059,289 |
| Administrative, selling and distribution expenses | 15 | **(320,810,042)** | (153,805,304) |
| | | **(56,475,308)** | 34,253,985 |
| Other income | 16 | **450,162** | 365,371 |
| Export incentive | | **14,400,000** | - |
| **Net profit/(loss) before tax** | | **(41,625,146)** | 34,619,356 |
| **Tax Expenses :** | | | |
| **Prov for Tax** | | **(13,533,595)** | (4,684,320) |
| | | **(13,533,595)** | (4,684,320) |
| **Net Profit/(Loss) for the year** | | **(55,158,741)** | 29,935,036 |

Sd/-
Managing Director

Sd/-
Director

Sd/-
G. Biswas & Co.
Chartered Accountants
Dhaka, May 10, 2012

## CASH FLOW STATEMENT FOR THE TWELVE MONTHS ENDED ON MARCH 31, 2012

| | Amount in Taka | |
|---|---|---|
| | Twelve Months ended 31 March 2012 | Twelve Months ended 31 March 2011 |
| **Cash flow from operating activities** | | |
| Net profit for the period | **(55,158,741)** | 29,935,036 |
| **Add: Adjustment of items not involving movement of cash** | | |
| Pre-operating expenses | **-** | - |
| Depreciation | **46,984,768** | 27,689,181 |
| Profit on Sale of Assets | **-** | - |
| Write-Off of Deferred Tax | | |
| | **46,984,768** | 27,689,181 |
| Operating Profit before changes in working capital | **(8,173,973)** | 57,624,217 |
| **Adjustment for changes in working capital** | | |
| Decrease / (Increase) in Inventories | **(109,526,814)** | (164,163,480) |
| Decrease / (Increase) in Goods in Transit | **12,143,646** | (11,241,213) |
| Decrease / (Increase) in Trade receivables | **20,033,018** | (5,227,153) |
| Decrease / (Increase) in Inter-company receivables | **(115,691,532)** | (106,869,004) |
| Decrease/(Increase) in advances, deposits and prepayments | **(56,111,554)** | (36,312,570) |
| Increase / (Decrease) in Secured loan | **179,295,096** | 58,030,892 |
| Increase / (Decrease) in Creditors for goods | **313,144,153** | 186,187,262 |
| Increase/(Decrease) in accrued expenses and other payables | | |
| Increase / (Decrease) in Inter-company payables | **15,272,244** | 86,955,524 |
| Increase / (Decrease) in Withholding Tax | **-** | - |
| | **258,558,258** | 7,360,258 |
| Net cash from operating activities | **250,384,285** | 64,984,475 |
| **Cash flow from investing activities:** | | |
| Purchase of fixed assets | **(144,222,113)** | (318,390,879) |
| Sale of Assets | **-** | 73,335 |
| Net cash used in investing activities | **(144,222,113)** | (318,317,544) |
| **Cash flow from financing activities:** | | |
| Proceeds from issue of shares | | |
| Share Money Deposit Received | **-** | 48,300,000 |
| Loan from HSBC | **(21,935,533)** | 174,572,500 |
| Loan from Orchid Trading Limited | **-** | - |
| Net cash flow from financing activities | **(21,935,533)** | 222,872,500 |
| **Increase in cash and cash equivalents** | **84,226,638** | (30,460,569) |
| **Cash and cash equivalent at opening** | **31,232,419** | 61,692,988 |
| **Cash and cash equivalent at closing (Note 11)** | **115,459,057** | 31,232,419 |

## STATEMENT FOR CHANGES IN EQUITY FOR THE TWELVE MONTHS ENDED ON MARCH 31, 2012

| | Amount in Taka | | | |
|---|---|---|---|---|
| **Particulars** | **Share capital** | **Share Money Deposit** | **Retained earnings** | **Total** |
| Balance as on March 31, 2010 | 49,378,100 | 200,445,000 | 125,640,148 | 375,463,248 |
| Share Money Deposit | | 48,300,000 | | 48,300,000 |
| Increase in Paid-up capital | 192,182,600 | (192,182,600) | | |
| Net profit for the year ended 31.03.11 | | | 29,935,036 | 29,935,036 |
| Balance as on March 31, 2011 | 241,560,700 | 56,562,400 | 155,575,184 | 453,698,284 |
| Net profit for the year ended 31.03.12 | | | (55,158,741) | |
| Balance as on March 31, 2012 | 241,560,700 | 56,562,400 | 100,416,443 | 453,698,284 |

## NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2012

**1. LEGAL STATUS AND NATURE OF THE COMPANY:**

Norp Knit Industries Limited is a Private Company Limited by shares incorporated on 05th day of May 2004 under the Companies Act, 1994 as adopted in Bangladesh. The shares of the Company are held by House of Pearl Fashions Ltd. , India (99.99%), Mr. Pallak Seth (0.002%) and Mr. Pulkit Seth (0.002%). The Company is mainly engaged in producing ready made knit garments for the purpose of exporting the same. The factory of the Company is located in Gazipur. The Company commenced commercial operation from 18th December, 2004.

**2. STATEMENT OF COMPLIANCE:**

**2.01 Basis of Preparation:**

The Financial Statements of Norp Knit Industries Limited have been prepared in accordance with the Bangladesh Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh, Companies Act, 1994 and other applicable laws.

**2.02 Basis of Measurement:**

The Financial Statements have been prepared on going concern basis under historical cost convention, using the accrual basis of accounting.

**2.03 Functional and presentational currency:**

These Financial Statements are prepared in Bangladesh Taka (Taka/TK), which is the Company's functional currency. All financial information presented in taka has been rounded off to the nearest integer.

**2.04 Going Concern:**

The Company has adequate resources to continue its operation for the foreseeable future. For this reason the directors continue to adopt going concern basis in preparing the accounts. The current resources of the company provide sufficient fund to meet the present requirements of its existing business.

**3 SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

**3.01 Foreign currency translation**

Foreign currencies are translated into Taka on a notional rate on the transaction dates. All monetary assets and liabilities are converted into taka at the exchange rate prevailing on the balance sheet date. Exchange gains or losses arising out of translation of assets and liabilities at the closing date are recognised in the Income Statement.

**3.02 Property, Plant and Equipment:**

Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditure directly attributable to the acquisition and installation of the Property, Plant and Equipment.

**3.03 Depreciation :**

Depreciation on fixed assets is charged on straight line method using different rates varying from 10% to 20% on cost of the assets. Deprecation is charged from the month following the month of acquisition/ installation of the Property, Plant and Equipment.

**3.04 Inventories**

Inventories include raw material, work-in-progress and finished goods. These are measured at the lower of cost and net realisable value in accordance with IAS 2. Cost is determined using the first-in-first-out principles. Net realisable value is the estimated selling price in the ordinary course of business less estimated cost necessary to make the sale.

**3.05 Trade Receivable:**

Trade Receivables at the Balance Sheet date are stated at amount which are considered realisable.

**3.06 Trade Payable:**

Liabilities are recognised for amounts to be paid in future for goods and services received.

**3.07 Provisions:**

Provisions are made where an obligation exists for future liability in respect of past event and where the amount of the obligation can be reliably estimated.

**3.08 Impairment:**

The carrying amounts of the assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated. Impairment losses, if any, are recognised in profit & loss account.

**3.09 Revenue recognition**

Revenue from the sale of goods is recognised when:

* Significant risk and rewards of ownership is transferred to the buyer.

* The Company has no managerial involvement of the ownership of goods.

* The revenue and cost of the transaction can be measured reliably.

* It is probable that the economic benefits of the transaction will flow to the Company.

**3.10 Events after balance sheet date**

No material events have occurred between the balance sheet date to the date of issue of these financial statements, that could affect the values stated in the financial statements.

**3.11 Taxation**

The Company being established as a 100% export oriented unit (EOU), the income of the Company is exempted from tax for a period of five years from the date of commencement of commercial production i.e. from December 18, 2004. The provisions of Section 53BB of the Income Tax Ordinance, 1984 apply to 100% export oriented industries after completion of five years and are taxed as per provision which requires the bank through with export proceeds of an exporter of Knitwear and Woven garments are received shall deduct tax at the rate 0.60 percent of the total export proceeds at the time of crediting the proceeds to the account of the exporter and will be regarded as final tax liability. Accordingly the company is now liable to tax on export proceeds at the rate of 0.60 percent.

**3.12 Deferred Tax**

The Company has adopted Deferred Tax Accounting Policy as per Bangladesh Accounting Standard. Accordingly, Deferred Tax Liability / Asset is accounted for all temporary timing differences arising between the Tax base of the assets and liabilities and their carrying value for financial Reporting process. In view of prevelant tax law as indicated in Note 3.11 Deferred Tax accounting is not considered necessary in view of the fact that for assessment under the provision of Section 53BB no temporary difference will arise between tax base of assets and liabilities and their carrying amounts in the financial statements.

**3.13 Employee benefits**

The Company has not yet introduced any provident fund, gratuity scheme and pension scheme for the employees.

**4. Share Capital**

| | **As on 31 March 2012** | As on 31 March 2011 |
|---|---|---|
| Authorized capital: | | |
| 25,00,000 (2010: 25,00,000) ordinary share of Tk. 100 each | **250,000,000** | 250,000,000 |
| Issued, subscribed and paid up capital: | | |
| 2,415,607 (2010: 493,781) ordinary shares of Tk. 100 each | **241,560,700** | 241,560,700 |
| The aforesaid capital was subscribed as under: | | |
| Subscribers: | **No. of shares** | No. of shares |
| House of Pearl Fashions Ltd. | **2,415,587** | 2,415,587 |
| Mr. Pallak Seth | **10** | 10 |
| Mr. Pulkit Seth | **10** | 10 |
| | **2,415,607** | 2,415,607 |

**5. Loan from HSBC**

This represents the amount received from the Hongkong and Shanghai Banking Corporation Limited for operations.

**6. PROPERTY, PLANT AND EQUIPMENT AS ON 31.03.12**

| Particulars | Cost | | | | Depreciation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as on 31.03.2011 | Addition for the period Apr' 11-Mar'12 | Deletion for the period Apr'11-Mar'12 | Cost as on 31.03.2012 | Total depreciation as on 31.03.2011 | Addition for the period Apr'11-Mar'12 | Depreciation on Disposal of Assets for the period Apr'11-Mar'12 | Total depreciation as on 31.03.2012 | W.D. Value as on 31.03.2012 | W.D. Value as on 31.03.2011 |
| **Unit 1** | | | | | | | | | | |
| Building & Civil Works | 20,152,434 | | | 20,152,434 | 16,800,679 | 1,885,754 | | 18,686,433 | 1,466,001 | 3,351,755 |
| Plant & Machinery | 94,463,670 | 114,758 | | 94,578,428 | 81,586,445 | 9,990,280 | | 91,576,725 | 3,001,703 | 12,877,225 |
| Vehicles | 2,063,975 | 2,550,632 | | 4,614,607 | 980,331 | 832,297 | | 1,812,628 | 2,801,979 | 1,083,644 |
| Furniture & Fixtures | 10,603,556 | 217,587 | | 10,821,143 | 4,898,710 | 1,064,811 | | 5,963,521 | 4,857,622 | 5,704,846 |
| Office Equipments & Computers | 6,339,758 | 960,900 | | 7,300,658 | 3,892,137 | 710,862 | | 4,602,999 | 2,697,659 | 2,447,621 |
| Telephone Installation & Connection | 586,660 | 54,392 | | 641,052 | 539,153 | 30,748 | | 569,901 | 71,151 | 47,507 |
| Air Conditioners | 1,587,100 | | | 1,587,100 | 1,481,889 | 100,604 | | 1,582,493 | 4,607 | 105,211 |
| Fire extinguisher | 415,040 | 86,860 | | 501,900 | 368,781 | 54,394 | | 423,175 | 78,725 | 46,259 |
| **Unit 2** | | | | | | | | | | |
| Building & Civil Works | 22,516,971 | 1,280,182 | | 23,797,153 | 650,177 | 2,322,088 | | 2,972,265 | 20,824,888 | 21,866,794 |
| Plant & Machinery, utility & Electrical Installations | 261,169,342 | 15,196,444 | | 276,365,786 | 7,734,395 | 26,920,339 | | 34,654,734 | 241,711,052 | 253,434,947 |
| Furniture & Fixtures | 21,696,459 | 3,477,344 | | 25,173,803 | 699,738 | 2,286,704 | | 2,986,442 | 22,187,361 | 20,996,721 |
| Office Equipments & Computers | 3,107,186 | 2,010,850 | | 5,118,036 | 91,838 | 445,484 | | 537,322 | 4,580,714 | 3,015,348 |
| Factory Equipments | 375,837 | 193,920 | | 569,757 | 12,135 | 42,899 | | 55,034 | 514,723 | 363,702 |
| Telephone Installation & Connection | 1,286,018 | | | 1,286,018 | 41,756 | 128,428 | | 170,185 | 1,115,833 | 1,244,262 |
| Fire extinguisher | 1,358,486 | 1,084,573 | | 2,443,059 | 32,102 | 169,076 | | 201,178 | 2,241,881 | 1,326,384 |
| **Total** | 447,722,492 | 27,228,442 | | 474,950,934 | 119,810,266 | 46,984,765 | | 166,795,034 | 308,155,900 | 327,912,226 |
| **Capital Work in Progress-Unit 1** | | | | | | | | | | |
| Plant & Machinery | 3,149,637 | | | 3,149,637 | | | | | 3,149,637 | 3,149,637 |
| **Capital Work in Progress-Unit 2** | | | | | | | | | | |
| Building & Civil Works | – | – | | – | – | – | | – | | |
| Electrical installations | – | – | | – | – | – | | – | – | – |
| Gas and utility and Transmission Lines | – | – | | – | – | – | | – | – | – |
| Plant & Machinery | 1,046,314 | 107,904,143 | 2,263,356 | 106,687,091 | | | | | 106,687,091 | 1,046,314 |
| Capital WIP - CC TV | 251,726 | | 251,726 | | | | | | – | 251,726 |

| Particulars | Cost | | | | Depreciation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as on 31.03.2011 | Addition for the period Apr' 11-Mar'12 | Deletion for the period Apr'11-Mar'12 | Cost as on 31.03.2012 | Total depreciation as on 31.03.2011 | Addition for the period Apr'11-Mar'12 | Depreciation on Disposal of Assets for the period Apr'11-Mar'12 | Total depreciation as on 31.03.2012 | W.D. Value as on 31.03.2012 | W.D. Value as on 31.03.2011 |
| Capital WIP - ETP | | 9,885,235 | | 9,885,235 | | | | | 9,885,235 | – |
| Furniture & Fixtures & work-aids | | | | – | | | | | – | – |
| Office Equipments & Computers | | 123,290 | | 123,290 | | | | | 123,290 | – |
| Factory Equipments | | | | | | | | | – | – |
| Telephone Installation & Connection | | | | | | | | | – | – |
| Fire extinguisher | | | | | | | | | – | – |
| SAP, Software installations - CWIP - Unit 1 & 2 | 7,693,670 | 1596,095 | | 9,289,765 | | | | | 9,289,765 | 7,693,670 |
| New Project Expenses related to building | | | | | | | | | – | – |
| Plants & machinery, gas connection etc | | | | | | | | | – | – |
| Total | 12,141,347 | 119,508,763 | 2515092 | 129,135,018 | – | – | – | – | 129,135,018 | 12,141,347 |
| Total Fixed Assets | 459,863,839 | 146,737,205 | 2515092 | 604,085,952 | 119,810,266 | 46,984,768 | – | 166,795,034 | 437,290,919 | 340,053,573 |

**Allocation of depreciation**

| | 1-Apr-11 to 31-Mar-12 Taka | 1-Apr-10 to 31 Mar-11 Taka |
|---|---|---|
| Cost of Goods sold | **43,060,587** | 25,346,702 |
| Administrative, Selling and Distribution Expenses | **3,924,181** | 2,342,480 |
| | **46,984,768** | 27,689,181 |

**7. INVENTORIES**

| | As on 31 March 2012 Taka | As on 31 March 2011 Taka |
|---|---|---|
| Raw materials | **172,171,485** | 108,772,655 |
| Work-in-progress | **182,241,552** | 107,326,178 |
| Finished goods | **67,860,614** | 96,648,004 |
| | **422,273,651** | 312,746,837 |

**8. TRADE RECEIVABLES**

| | | |
|---|---|---|
| ATS Apparels | **330,619** | 330,619 |
| Fawaz Al Hokair & Co | **-** | 3,115,357 |
| Al Libas International Fashions LLC | **67,690,269** | 65,128,591 |
| Anand Fashion International Dubai | **14,400,000** | 13,800,000 |
| Celio International | **-** | 34,015,465 |
| Friends International | **1,559,081** | - |
| Mirdual Enterprises | **20,927** | - |
| Sabuz Enterprises | **4,486** | - |
| Bass Pro Shops | **4,722,239** | - |
| Redcats Asia Ltd. | **7,359,393** | - |
| | **96,357,014** | 116,390,032 |

**9. INTER-COMPANY RECEIVABLES**

| | | |
|---|---|---|
| Pearl Global Limited-(Sales) | **120,559,723** | 86,950,831 |
| Norwest Industries Limited (Expenses) | **-** | 3,216,678 |
| Pearl Global Limited-Chennai (Sales) | **170,778,552** | 95,296,543 |
| Pearl Global Limited-Chennai (Exp) | **2,485,253** | 2,979,706 |
| Simple Approach Ltd (Sales) | **11,721,862** | - |
| Simple Approach Ltd (Expenses) | **-** | 1,410,100 |
| | **305,545,390** | 189,853,858 |

**10. ADVANCES, DEPOSITS AND PREPAYMENTS**

| | As on 31 March 2012 Taka | As on 31 March 2011 Taka |
|---|---|---|
| Advances (considered good) to: | | |
| Landlord against rent | **121,703,903** | 212,844 |
| Suppliers | **10,827,051** | 110,785,033 |
| Employees | **1,209,634** | 420,304 |
| Incentive Receivable | **13,296,110** | - |
| Others | **4,135,811** | 3,744,555 |
| | **151,172,509** | 115,162,736 |
| Deposits | | |
| Margin against L/C and B/G | **130,600** | 130,600 |
| Security deposits | **23,023,934** | 2,923,460 |
| | **23,154,534** | 3,054,060 |
| Prepayments | | |
| Prepaid Insurance | **47,405** | 46,098 |
| | **47,405** | 46,098 |
| | **174,374,448** | 118,262,894 |

**11. CASH AND BANK BALANCES**

| | | |
|---|---|---|
| Cash in hand | **3,160,013** | 741,279 |
| **Balances with bank** | | |
| Fixed deposit with United Commercial Bank | **2,580,200** | 2,398,732 |
| Current Account with United Commercial Bank | **767,610** | 365,060 |
| Margin deposit with United Commercial Bank | | 4,531,528 |
| Exchange Retention Quota with United Commercial Bank | **75,434** | 72,290 |
| HSBC-001-112432-011 | | |
| HSBC-001-112432-012 | **9,759,846** | |
| HSBC-001-112432-067 | **593,115** | |
| HSBC-001-112432-095 | **-** | 773210 |
| HSBC-001-112432-047 | **4,871,215** | 1122542 |
| HSBC-001-112432-091 | **115,846,775** | 15,844,538 |
| HSBC Margin L/C | **44,369** | 3,456,412 |
| HSBC- Short Term Deposit | **7,491,530** | |
| HSBC- Transit | **(29,731,051)** | |
| HSBC- Bank Guarantee | | 1,926,828 |
| | **112,299,044** | 30,491,140 |
| | **115,459,057** | 31,232,419 |

## 12. TRADE AND OTHER PAYABLES

| | As on 31 March 2012 Taka | As on 31 March 2011 Taka |
|---|---|---|
| Trade payables : | | |
| Basic Thread Industries Ltd. | – | 1,538,671 |
| Coats Bangladesh | 52,381 | 1,329,768 |
| HTMS Packaging | 137,340 | 204,563 |
| J. R. Fashion | 222,221 | 1,486,628 |
| Nice Dyeing Factory | 33,418,314 | 1,132,131 |
| Victory City Company Ltd. | 16,607,148 | – |
| Aduri Knit Composite Ltd. | – | 21,218 |
| Zumana Paper Box | 4,859,212 | 7,142,207 |
| Others | 422,968,825 | 234,974,391 |
| | 478,265,441 | 247,829,577 |
| Other payables | | |
| Management fee payable | – | 1,500,000 |
| Liability for Tax | 2,774,853 | 1,740,793 |
| Withholding tax payable | 1,447,562 | 911,789 |
| Export bills discounted | 49,729,602 | 18,973,702 |
| Others | 85,650,619 | 33,768,063 |
| | 139,602,636 | 56,894,347 |
| | 617,868,077 | 304,723,924 |

## 13. INTER-COMPANY PAYABLES

| | | |
|---|---|---|
| Pearl Global Fareast Ltd | – | 812,714 |
| House of Pearl Fashions Ltd. | 16,659,400 | 10,922,521 |
| Poeticgem Ltd. | 15,019,095 | 14,393,299 |
| Simple Approach Ltd. | | 8,420,828 |
| Norwest Industries Ltd. | 4,638,015 | – |
| Norpearl Knitwear Ltd. | – | 1,475,100 |
| Pearl Global Limited-Chennai (Creditor-Goods) | 13,323,098 | 1,802,494 |
| Pearl Global Limited (Creditors-Goods) | 53,891,490 | 54,703,858 |
| Pearl Global Limited (Creditors-Expenses) | 42,084,848 | 37,812,888 |
| | 145,615,946 | 130,343,702 |

## 14. COST OF GOODS SOLD

| | | |
|---|---|---|
| Raw material consumed (Notes 14.01) | 1,509,589,499 | 869,176,818 |
| Wages | 288,008,501 | 133,306,021 |
| Manufacturing overheads (Notes 14.02) | 216,717,689 | 104,691,333 |
| | 2,014,315,689 | 1,107,174,172 |
| Add: Opening work-in-progress | 107,326,178 | 44,575,007 |
| | 2,121,641,867 | 1,151,749,179 |
| Less: Closing work-in-progress | 182,241,552 | 107,326,178 |
| Cost of goods manufactured | 1,939,400,315 | 1,044,423,001 |
| Add: Opening stock of finished goods | 96,648,004 | 49,032,508 |
| Cost of goods available for sale | 2,036,048,319 | 1,093,455,509 |
| Less: Closing stock of finished goods | 67,860,614 | 96,648,004 |
| Cost of goods sold | 1,968,187,705 | 996,807,505 |

## 14.1 RAW MATERIAL CONSUMED

| | | |
|---|---|---|
| Opening inventory | 108,772,655 | 54,975,842 |
| Purchases during the period | 1,572,988,329 | 922,973,931 |
| Closing inventory | 172,171,485 | 108,772,655 |
| | 1,509,589,499 | 869,176,818 |

## 14.2 MANUFACTURING OVERHEADS

| | As on 31 March 2012 Taka | As on 31 March 2011 Taka |
|---|---|---|
| Stores, Spares & Maintenance | 9,836,695 | 6,394,724 |
| Factory cleaning & Upkeep | 5,087,548 | 2,499,281 |
| Factory rent | 49,430,283 | 5,954,250 |
| Security services | 6,750,107 | 3,389,098 |
| Power & Fuel | 23,393,971 | 18,702,515 |
| Consumables | 4,747,598 | 3,897,945 |
| Compliance Expenses | 1,709,835 | 1,386,716 |
| Sampling expenses | 436,036 | 88,599 |
| Testing Charges | 10,651,499 | 5,601,818 |
| Machinery Higher | 3,815,451 | 737,970 |
| Embroidery Charges | - | 618,360 |
| Clearing and forwarding inward | 19,770,100 | 11,249,348 |
| L/C charges for inputs | 20,073,187 | 9,014,323 |
| Subcontract Expenses | 11,057,199 | 7,530,259 |
| Depreciation (Note 6.01) | 43,060,587 | 25,346,702 |
| Insurance | 6,897,593 | 2,279,426 |
| | 216,717,689 | 104,691,333 |

## 15. Administrative, selling and distribution expenses

| | | |
|---|---|---|
| Salaries | 122,568,194 | 63,530,119 |
| Marketing Expenses | 66,904,126 | 28,474,288 |
| Interest | 36,732,330 | 9,355,063 |
| Communication | 4,209,416 | 2,864,449 |
| Conveyance | 1,994,874 | 1,379,314 |
| Entertainment | 648,970 | 388,350 |
| Office Stationery | 4,511,933 | 2,093,453 |
| Stationery Printing | 1,143,247 | 678,084 |
| Clearing & forwarding outward | 20,938,888 | 13,400,960 |
| Bank Charges | 14,093,396 | 6,029,394 |
| Travelling - Foreign | 1,904,588 | 777,442 |
| Vehicle fuel & maintenance | 19,043,719 | 9,381,167 |
| Courier & postage | 7,894,583 | 4,072,407 |
| Corporate Charges | 5,078,880 | 4,424,832 |
| Audit fee / Internal Audit | 881,507 | 1,130,988 |
| Depreciation (Note 6.01) | 3,924,181 | 2,342,480 |
| Others | 8,337,210 | 3,482,514 |
| | 320,810,042 | 153,805,304 |

## 15.01. Salaries

This includes the following emoluments to one of the directors of the company:

| | | |
|---|---|---|
| Remuneration | - | - |
| Housing | - | - |
| | - | - |

## 16. Other income

| | | |
|---|---|---|
| Interest Earned | 450,162 | 365,371 |
| Others | - | - |
| | 450,162 | 365,371 |

**17. Related party**

| Name of the parties | Nature | Transactions | Transaction value (Taka) | | | | Balance outstanding (Taka) | |
|---|---|---|---|---|---|---|---|---|
| | | | **Year ended 31 Mar 2012** | For Three Month 31 Mar 2012 | For Nine Month 31 Dec 2011 | Year ended 31 Mar 2011 | **As At 31 Mar 2012** | As At 31 Mar 2011 |
| Norwest Industries Ltd. | Group Company | Sales of goods | **2,161,715** | – | 2,161,715 | – | **–** | – |
| | | Expenses payable | **15,818,549** | 524,750 | 15,293,799 | 21,296,445 | **4,638,015** | – |
| | | Expenses recoverable | **9,341,000** | 259,700 | 9,081,800 | 24,152,327 | **–** | 3,216,678 |
| Pearl Global Ltd. | Group Company | Sales of goods | **1,010,777,845** | 300,362,024 | 710415821 | 671,003,725 | **120,559,723** | 86,950,832 |
| | | Purchase | **95,913,940** | 52,819,612 | 43094328 | 75,079,662 | **53,891,490** | 54,703,858 |
| | | Expenses payable | **5,912,892** | 1,568,305 | 4344587 | 26,793,311 | **42,084,848** | 37,812,889 |
| | | Expenses recoverable | **2,996,454** | 2,178,114 | 818340 | 2,837,142 | **–** | |
| Pearl Global Ltd -Chennai | Group Company | Sales of goods | **686,535,493** | 355,876,060 | 330659433 | 176,752,122 | **170,778,552** | 95,296,543 |
| | | Purchase | **3,945,282** | – | 3945282 | 8,727,224 | **13,323,098** | 1,802,495 |
| | | Expenses recoverable | **3,917,081** | 2,495,338 | 1421743 | 2,495,338 | **2,485,253** | 2,979,706 |
| | | Expenses payable | **1,957,751** | 992,403 | 965348 | 992,403 | **–** | 2,979,706 |
| Pearl Global Fareast Ltd | Group Company | Expenses payable | **–** | – | – | – | **–** | 812,714 |
| Poeticgem Ltd. | Group Company | Expenses payable | **–** | – | – | | **15,019,095** | 14,393,299 |
| House of Pearl Fashions Ltd. | Parent Company | Sale | **–** | – | – | 63,152,621 | **–** | – |
| | | Corporate Charges | **5,261,981** | 1,269,720 | 3992291 | 4,424,832 | **16,659,400** | 10,921,521 |
| | | Expenses recoverable | **–** | – | – | 1,016,042 | **–** | – |
| | | Expenses payable | **–** | – | – | 3,441,696 | **–** | – |
| | | Share money deposit | **–** | 98,325,000 | – | 48,300,000 | **–** | 56,562,400 |
| PT Norwest Industry | Group Company | Purchase | **–** | | – | 2,731,861 | **–** | – |
| Simple Approach Ltd | Group Company | Sale of goods | **191,002,293** | 4,649,4373 | 144,507,920 | 112,569,401 | **11,721,362** | – |
| | | Expenses payable | **15,768,977** | – | 15,768,977 | 2,057,704 | **–** | 8,420,828 |
| | | Expenses recoverable | **5,530,600** | – | 5,530,600 | 3,813,843 | **–** | **1,410,100** |

Outstanding balances in respect of sale of goods and expenses with these related parties are priced on an arm's length basis.

The company purchased raw materials from the group company. The purchases are on the same terms and conditions as those entered into with other suppliers and payable under normal payment terms.

In addition, the company disbursed loan, advance against sale, received equity money to/from group companies as per business norm.

**18. Contingent liability**

Contingent liability of the company was Tk. 211.30 million as on 31 March 2012 (Tk. 225.33 million as on 31st March, 2011) in respect of letters of credit outstanding and Tk 1,865 millions in respect of bank guarantee.

**19. Number of employees**

The number of employees engaged as on 31st March, 2012 who have received a total remuneration of Tk. 3,000 per month or above were 4788 person (3537 persons as on 31st March 2011)

**20. Exchange gain/(loss)**

This represents gain/(loss) arising from translation of foreign currency into local currency.

**21. General**

Figures are rounded off to nearest Taka.

Previous year figures have been rearranged, wherever necessary, to conform to current period's presentation.

**22. Additional information disclosed**

| S.No. | Particulars | Financial Year 2011-2012 | Financial Year 2010-2011 |
|---|---|---|---|
| 1. | **Long term borrowings:** | | |
| | Payable within one year | **73,473,120** | 116,786,060 |
| | Payable after one year | **79,163,847** | 57,786,440 |
| | | **152,635,967** | 174,572,500 |
| 2. | **Trade payable:** | | |
| | Payable within one year | **623,881,387** | 378,173,279 |
| | Payable after one year | **–** | - |
| | | **623,881,387** | 378,173,279 |

| S.No. | Particulars | Financial Year 2011-2012 | | Financial Year 2010-2011 | |
|---|---|---|---|---|---|
| 3. | **Other Liabilities:** | | | | |
| | Payable within one year | **136,778,713** | | 55,518,253 | |
| | Payable after one year | **–** | | – | |
| | | **136,778,713** | | 55,518,253 | |
| 4. | **Long term provisions:** | | | | |
| | Payable after one year - Employee Benefit-Gratuity | **2,823,923** | | 1,376,094 | |
| | Payable after one year - Others | **–** | | – | |
| | | **2,823,923** | | 1,376,094 | |
| 5. | **Fixed assets:** | | | | |
| | Capital Advance given for following heads | **NIL** | | NIL | |
| 6. | **Loan & advances:** | | | | |
| | **Receivable within one year** | | | | |
| | Suppliers | **10,827,051** | | 110,785,033 | |
| | Employees | **1,209,634** | | 420,304 | |
| | Incentive receivable | **13,296,110** | | - | |
| | Insurance | **47,405** | | 46,098 | |
| | | **25,380,200** | | 111,251,435 | |
| | Receivable after one year | | | | |
| | Advance rent | **121,703,903** | | 212,844 | |
| | Margin against LC and Bank guarantee | **130,600** | | 130,600 | |
| | Security deposits | **23,023,934** | | 2,923,460 | |
| | Other misc. deposits | **4135,811** | | 3,744,555 | |
| | | **148,994,248** | | 7,011,459 | |
| | Total | **174,374,448** | | 118,262,894 | |
| | | | **FY 2011-2012** | | FY 2010-2011 |
| | | **Receivable within one year** | **Receivable after one year** | Receivable within one year | Receivable after one year |
| 7. | **Debtors** | | | | |
| | Due over six months | **82,690,888** | **–** | 79,259,210 | **–** |
| | **Less:** Provisions for bad debts | **–** | **–** | – | **–** |
| | **Net debtors due over six months** | **82,693,888** | **–** | 79,259,210 | **–** |
| | Others | **319,211,516** | **–** | 226,984,680 | **–** |
| | **Less:** Provisions for bad debts | **–** | **–** | – | **–** |
| | **Net debtors others** | **319,211,516** | **–** | 226,984,680 | **–** |

## DIRECTORS' REPORT

The directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 March 2012.

**Principal activities**

The principal activity of the Company is design, development, trading, sourcing and distribution of ready made garments of all kinds.

**Results and dividend**

The results for the year are shown in the accounts.

The directors do not recommend the payment of a dividend for the year under review (2011: NIL).

**Statement of Directors' responsibilities in respect of the financial statements**

The directors are responsible for the preparation of financial statements. In preparing those financial statements the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgment and estimates that are reasonable and prudent;
- stated whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Sd/-

**Director**

**Date: 21 May 2012**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
House of Pearl Fashions (US) Ltd.

We have audited the accompanying balance sheets of House of Pearl Fashions (US) Ltd. (the "Company") as of March 31, 2012 and 2011, and the related statements of comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of House of Pearl Fashions (US) Ltd. as of March 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards.

May 21, 2012

## BALANCE SHEETS

March 31, 2012 and 2011

| | Note(s) | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Property and equipment, net | 5 | **$ 33,279** | $ $44,620 |
| Other non-current assets | 6 | **87,497** | 87,497 |
| Total non-current assets | | **120,776** | 132,117 |
| Current assets | | | |
| Inventory | 20 | **4,190,467** | 3,235,490 |
| Trade and other receivables, net | 3,7,17,18,19 | **385,638** | 2,429,855 |
| Other current assets | 8 | **355,233** | 331,557 |
| Cash | 3,18,19 | **814,658** | 907,977 |
| Total current assets | | **5,745,996** | 6,904,879 |
| Total assets | | **$ 5,866,772** | $ 7,036,996 |
| **Equity** | | | |
| Share capital | 9 | **$ 1,060,000** | $ 1,060,000 |
| Retained earnings | | **492,307** | 687,344 |
| Total equity | | **1,552,307** | 1,747,344 |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Loans | 3,10,17,18 | **1,150,000** | 1,150,000 |
| Total non-current liabilities | | **1,150,000** | 1,150,000 |
| Current liabilities | | | |
| Trade and other payables | 3,11,17,18 | **3,163,414** | 4,130,526 |
| Income tax liabilities | 3,15,18 | **1,051** | 9,126 |
| Total current liabilities | | **3,164,465** | 4,139,652 |
| Total liabilities | | **4,314,465** | 5,289,652 |
| Total equity and liabilities | | **$ 5,866,772** | $ 7,036,996 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF COMPREHENSIVE INCOME

Years ended March 31, 2012 and 2011

| | Note(s) | 2012 | 2011 |
|---|---|---|---|
| Net sales | 19 | **$ 20,443,320** | $ 23,927,447 |
| Cost of sales | 17, 20 | **15,544,768** | 18,824,496 |
| Gross profit | | **4,898,552** | 5,102,951 |
| Distribution expenses | 17,21 | **2,031,280** | 2,033,744 |
| Administrative expenses | 17,22 | **2,898,749** | 3,330,194 |
| Other income | 12,17 | **(293,596)** | (707,448) |
| Operating income | | **262,119** | 446,461 |
| Finance income | 13 | **1,512** | 5,914 |
| Finance expenses | 10,14,17 | **(462,778)** | (346,760) |
| (Loss) income before income taxes | | **(199,147)** | 105,615 |
| Income tax (benefit) expense | 15 | **(4,110)** | 19,457 |
| Net (loss) income | | **$ (195,037)** | $ 86,158 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended March 31, 2012 and 2011

| | Note(s) | Share Capital | Accumulated Deficit | Total |
|---|---|---|---|---|
| Balance March 31, 2010 | 9 | $ 1,060,000 | $ 601,186 | $ 1,661,186 |
| Net income | | – | 86,158 | 86,158 |
| Balance March 31, 2011 | 9 | 1,060,000 | 687,344 | 1,747,344 |
| Net loss | 9 | – | (195,037) | (195,037) |
| Balance March 31, 2012 | | $ 1,060,000 | $ 492,307 | $ 1,552,307 |

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

Year ended March 31, 2012 and 2011

| | Note(s) | 2012 | 2011 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| (Loss) income before income tax | | **$ (199,147)** | $ 105,615 |
| Adjustment for non-cash items: | | | |
| Depreciation | 5 | **11,341** | 43,664 |
| Loss on disposal of equipment | 5 | **–** | 7,936 |
| Add finance expense | 14,17 | **462,778** | 346,760 |
| Deduct finance income | 13 | **(1,512)** | (5,914) |
| Working capital adjustments | | | |
| Change in trade and other receivables | 7,17,18,19 | **2,032,856** | (419,900) |
| Change in inventory | 20 | **(954,977)** | 594,739 |
| Change in other current assets | 8 | **(23,676)** | (249,345) |
| Change in other non-current assets | 6 | **–** | 19,184 |
| Change in trade and other payables | 11,17,18 | **(1,210,792)** | (612,168) |
| **Cash provided by (used in) operations** | | **116,871** | (169,429) |
| Finance expenses paid | 14,17 | **(462,778)** | (346,760) |
| Finance income received | 13 | **1,512** | 5,914 |
| Income tax refund received | | **–** | 617,000 |
| Income tax paid | 15,18 | **(3,965)** | (6,947) |
| **Net cash (used in) provided by operating activities** | | **(348,360)** | 99,778 |
| **Cash flows from investing activities** | | | |
| Purchase of equipment | 5 | **–** | (10,419) |
| Due from affiliates | 7,17 | **11,361** | 27,732 |
| **Net cash provided by investing activities** | | **11,361** | 17,313 |
| **Cash flows from financing activities** | | | |
| Due to affiliates | 11,17 | **243,680** | 70,973 |
| **Net cash provided by financing activities** | | **243,680** | 70,973 |
| Change in cash | | **(93,319)** | 188,064 |
| Cash at beginning of year | | **907,977** | 719,913 |
| Cash at end of year | | **$ 814,658** | $ 907,977 |

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

Years ended March 31, 2012 and 2011

**1. General Information**

House of Pearl Fashions (US) Ltd. (the "Company") was incorporated in the State of New York in the United States of America on August 1, 2006. The address of its registered office is 300-2 Route 17 South, Unit E, Lodi, New Jersey 07644. The Company is a subsidiary of Pearl Global Industries Ltd. (formerly known as House of Pearl Fashions Ltd.)

These financial statements were authorized for issue by the board of directors on May 21, 2012.

**2. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of Preparation**

The financial statements of the Company have been prepared on the historical cost basis and are presented in U.S. dollars, which is the Company's functional and presentation currency.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These standards comprise of:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC).

**Estimates**

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of income and expenses. Actual results may differ from these estimates.

**Segment Reporting**

The Company's activities are organized primarily into one single business segment, being the distribution of men's and women's apparel to mass merchandisers and department stores located throughout the United States of America. Geographically, all significant assets, distribution, management and administration facilities are located in the United States of America.

**Classification of Financial Assets**

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**Cash**

The Company maintains cash balances at one bank which exceeds federally-insured limits from time to time. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Replacement and improvements are capitalized while general repairs and maintenance are expensed as incurred. Assets are depreciated over their expected useful lives ranging from 5 to 10 years using the straight-line method.

**Inventory**

Inventory, which consists of finished goods, is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The Company writes down inventory to net realizable value, through the use of an allowance account, whenever the net realizable value of inventory becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount of inventory that is expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the balance sheet date to the extent that such events confirm conditions existing at the balance sheet date. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

**Trade Receivables**

Trade receivables are stated at their cost less any allowance for doubtful accounts and impairment losses. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts and the aging of the trade receivables.

**Other Receivables**

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

**Impairment**

Management evaluates the carrying value of the Company's financial and non-financial assets for potential impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If any indication of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the recoverable amount is less than the carrying amount of an asset. Impairment losses are recognized in the statement of comprehensive income.

**Loans**

Loans are stated at their repayment amounts. Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Trade and Other Payables**

Trade and other payables are stated at their repayment amounts. Payments with repayment dates exceeding one year are discounted to their net present values.

**Revenue Recognition**

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes or duty. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded.

For sale of goods, revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery.

**Leases**

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

**Income Taxes**

Income tax on income or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable with respect to previous years.

Deferred taxes are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**New Authoritative Accounting Pronouncements**

The Company does not anticipate the adoption of recently issued accounting pronouncements to have a significant impact on the Company's financial statements.

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

**3. Financial Risk Management**

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

**Credit and Liquidity Risk**

Financial instruments that potentially subject the Company to concentrations of credit and liquidity risk consist of cash and trade and other receivables. The Company's cash is denominated in U.S. dollars. Cash is maintained with high-quality financial institutions. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments:

| | **March 31, 2012** | | | |
|---|---|---|---|---|
| | **On Demand** | **Less than 30 days** | **More than 30 days** | **Total** |
| **Trade and other payables** | **$ 3,163,414** | **$ –** | **$ –** | **$ 3,163,414** |
| **Income tax liabilities** | **–** | **1,051** | **–** | **1,051** |
| **Loans from shareholders** | **–** | **–** | **1,150,000** | **1,150,000** |
| | **$ 3,163,414** | **$ 1,051** | **$ 1,150,000** | **$ 4,314,465** |

| | March 31, 2011 | | | |
|---|---|---|---|---|
| | On Demand | Less than 30 days | More than 30 days | Total |
| Trade and other payables | $ 4,130,526 | $ – | $ – | $ 4,130,526 |
| Income tax liabilities | – | 9,126 | – | 9,126 |
| Loans from shareholders | – | – | 1,150,000 | 1,150,000 |
| | $ 4,130,526 | $ 9,126 | $ 1,150,000 | $ 5,289,652 |

**Market Risk**

Market risk is the risk that market prices, such as interest rates, will affect the Company's income. The Company is exposed to this risk.

**Fair Values**

The carrying values of financial assets and liabilities such as cash, trade and other receivables and trade payables approximate their fair values due to the short-term maturities of these instruments.

**4. Capital Management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payments, pay-off existing debts, return capital to shareholders or issue new shares.

**5. Property and Equipment**

Property and equipment consisted of the following at March 31,:

| | **Furniture and Fixtures** | **Equipment** | **Leasehold Improvements** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| April 1, 2011 | $ 80,885 | $ 202,826 | $ 56,178 | $ 339,889 |
| March 31, 2012 | $ 80,885 | $ 202,826 | $ 56,178 | $ 339,889 |
| **Accumulated Depreciation** | | | | |
| April 1, 2011 | $ 74,146 | $ 183,545 | $ 37,578 | $ 295,269 |
| Depreciation for the year | 1,865 | 5,709 | 3,767 | 11,341 |
| March 31, 2012 | $ 76,011 | $ 189,254 | $ 41,345 | $ 306,610 |
| **Net Book Value** | | | | |
| April 1, 2011 | $ 6,739 | $ 19,281 | $ 18,600 | $ 44,620 |
| March 31, 2012 | $ 4,874 | $ 13,572 | $ 14,833 | $ 33,279 |

| | **Furniture and Fixtures** | **Equipment** | **Leasehold Improvements** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| April 1, 2010 | $ 131,230 | $ 192,407 | $ 485,414 | $ 809,051 |
| Additions during the year | – | 10,419 | – | 10,419 |
| Disposals during the year | (50,345) | – | (429,236) | (479,581) |
| March 31, 2011 | $ 80,885 | $ 202,826 | $ 56,178 | $ 339,889 |
| **Accumulated Depreciation** | | | | |
| April 1, 2010 | $ 119,158 | $ 176,941 | $ 427,151 | $ 723,250 |
| Depreciation for the year | 2,702 | 6,604 | 34,358 | 43,664 |
| Depreciation on disposals | (47,714) | – | (423,931) | (471,645) |
| March 31, 2011 | $ 74,146 | $ 183,545 | $ 37,578 | $ 295,269 |
| **Net Book Value** | | | | |
| April 1, 2010 | $ 12,072 | $ 15,466 | $ 58,263 | $ 85,801 |
| March 31, 2011 | $ 6,739 | $ 19,281 | $ 18,600 | $ 44,620 |

**6. Other Non-Current Assets**

Other non-current assets consisted of the following:

| | **March 31,** | |
|---|---|---|
| | **2012** | 2011 |
| Security deposits | **$ 87,497** | $ 87,497 |

**7. Trade and Other Receivables, Net**

Trade and other receivables, net consisted of the following:

| | **March 31,** | |
|---|---|---|
| | **2012** | 2011 |
| Due from factor | **$ 46,455** | $ 1,221,147 |
| Trade receivables | **216,913** | 1,075,077 |
| Due from affiliates | **122,270** | 133,631 |
| | **$ 385,638** | $ 2,429,855 |

The Company has a factoring agreement wherein the factor purchases substantially all of the trade accounts receivable and assumes substantially all credit risks with respect to such accounts. At March 31, 2012, the Company was subject to $568,644 in customer credit risk not covered by the factor. To the extent the Company draws on funds prior to the average maturity date of accounts receivable sold to the factor, the Company pays interest on such funds at the prime lending rate per annum (prime lending rate was 3.25% at March 31, 2012). The Company is contingently liable to the factor for merchandise disputes, customer's claims, etc., on receivables sold to the factor. The factor has a security interest in all of the Company's accounts receivable and other property.

At both March 31, 2012 and 2011, due from affiliates are due on a demand basis, bearing no interest.

**8. Other Current Assets**

Other current assets consisted of the following:

| | March 31, 2012 | 2011 |
|---|---|---|
| Advance payments to vendors | **$ 349,230** | $ 325,554 |
| Other current assets | **6,003** | 6,003 |
| | **$ 355,233** | $ 331,557 |

**9. Share Capital**

Common stock consists of no par value shares of which 200 shares are authorized and 130 shares are issued and outstanding.

**10. Loans**

Loans consisted of the following:

| | March 31, 2012 | 2011 |
|---|---|---|
| Loans from shareholders | **$ 1,150,000** | $ 1,150,000 |

At both March 31, 2012 and 2011, the Company has two loans from shareholders amounting to $750,000 and $400,000. These loans are due in more than one year and are subordinated to the factor. The $400,000 loan bears interest at 6% per annum and the $750,000 loan is non-interest bearing. For each of the years ended March 31, 2012 and 2011, interest expense on these loans amounted to $24,000.

**11. Trade and Other Payables**

Trade and other payables consisted of the following:

| | March 31, 2012 | 2011 |
|---|---|---|
| Trade payables | **$ 713,459** | $ 1,708,407 |
| Accrued expenses | **242,731** | 458,575 |
| Due to affiliates | **2,207,224** | 1,963,544 |
| | **$ 3,163,414** | $ 4,130,526 |

**12. Other Income**

Other income consisted of the following:

| | Years Ended March 31, 2012 | 2011 |
|---|---|---|
| Commissions and other income | **$ 293,596** | $ 707,448 |

**13. Finance Income**

Finance income consisted of the following:

| | Years Ended March 31, 2012 | 2011 |
|---|---|---|
| Interest income | **$ 1,512** | $ 5,914 |

**14. Finance Expenses**

Finance expenses consisted of the following:

| | Years Ended March 31, 2012 | 2011 |
|---|---|---|
| Factor's interest, commissions and charges | **$ 438,778** | $ 322,760 |
| Interest expense on loan from shareholder | **24,000** | 24,000 |
| | **$ 462,778** | $ 346,760 |

**15. Income Taxes**

The major components of income tax expense are as follows:

| | Years Ended March 31, 2012 | 2011 |
|---|---|---|
| Current income tax (benefit) expense | **$ (4,110)** | $ 19,457 |

For the years ended March 31, 2012 and 2011, the significant components of the net deferred tax assets amounting to approximately $644,000 and $685,000 respectively, were inventory capitalization, the difference between the book and tax bases of property and equipment and net operating loss carryforward.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. At March 31, 2012 and 2011, a valuation allowance amounting to approximately $644,000 and $685,000, respectively, has been provided based on the likelihood of realization. The valuation allowance decreased by $41,000 and $246,000 during the years ended March 31, 2012 and 2011, respectively.

At March 31, 2012, the Company had approximately $781,000 and $3,855,000 of federal and state and local net operating losses carryforwards, respectively, available for income tax purposes. These losses are available to offset future taxable income and expire at various dates through March 31, 2032.

**16. Commitments and Contingencies**

**License Agreement**

Effective February 1, 2009, the Company has entered into a license agreement with Geoffrey Beene, LLC to design, manufacture, and sell certain men's apparel. The agreement, which was due to expire on December 31, 2011, was extended for a six month period ending June 30, 2012. The agreement requires the Company to make royalty payments based on specified percentages of net sales, as defined. In addition, the Company is required to expend a specified percentage of net sales, as defined, for advertising. For the years ended March 31, 2012 and 2011, the license and advertising fees expended by the Company amounted to approximately $883,000 and $761,000, respectively.

The Company has been notified by Geoffrey Beene, LLC that it will not be extending the licensing agreement beyond June 30, 2012. The Company intends to take steps to mitigate the effect of this loss of revenue.

At March 31, 2012, the future minimum payment required under this agreement was as follows:

| | |
|---|---|
| No later than 1 year | $ 115,000 |

The Company has furnished a standby letter of credit in favor of Geoffrey Beene, LLC in an amount equal to the Guaranteed Minimum Fee of $115,000 for the last three months, of the extended term.

**Operating Lease Commitment**

The Company has entered into long-term operating lease agreements for the rental of showroom and warehouse premises which expire through April 30, 2017. For the years ended March 31, 2012 and 2011, rent expense amounted to approximately $353,000 and $308,000, respectively.

At March 31, 2012, the approximate future minimum rental payments were as follows:

| | |
|---|---|
| No later than 1 year | $ 128,000 |
| Later than 1 year and no later than 5 years | 432,000 |
| | $ 560,000 |

**17. Related Party Transactions and Balances**

The Company had the following related party transactions and balances:

| | Years Ended March 31, 2012 | 2011 |
|---|---|---|
| Net purchases | **$ (135,833)** | $ (8,837,453) |
| Sampling | **(109,191)** | (111,758) |
| Rent | **180,000** | – |
| Reimbursement of expenses | **202,363** | 203,111 |
| Finance expense | **(24,000)** | (24,000) |
| Commission income | **–** | 243,227 |
| SAP facility charges | **(19,500)** | (14,625) |
| | **March 31, 2012** | 2011 |
| Due from affiliates | **$ 122,270** | $ 133,631 |
| Loans from shareholder | **1,150,000** | 1,150,000 |
| Due to affiliates | **2,207,224** | 1,963,544 |

The Company paid consulting charges of approximately $198,000 and $244,000 to its key management personnel during the year ended March 31, 2012 and 2011, respectively.

**18. Financial Instruments**

Balance sheet amounts for financial instruments by category are as follows:

| | March 31, 2012 | | Breakdown by Category | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Loans and receivables** | **Financial liabilities at amortized cost** |
| **Assets** | | | | |
| **Cash** | **$ 814,658** | **$ 814,658** | **$ 814,658** | **$ –** |
| **Trade and other receivables, net** | **385,638** | **385,638** | **385,638** | **–** |
| **Total** | **$ 1,200,296** | **$ 1,200,296** | **$ 1,200,296** | **$ –** |
| **Liabilities** | | | | |
| **Trade and other payables** | **$ 3,163,414** | **$ 3,163,414** | **$ –** | **$ 3,163,414** |
| **Income tax liabilities** | **1,051** | **1,051** | **–** | **1,051** |
| **Loans from shareholders** | **1,150,000** | **1,150,000** | **–** | **1,150,000** |
| **Total** | **$ 4,314,465** | **$ 4,314,465** | **$ –** | **$ 4,314,465** |

| | March 31, 2011 | | Breakdown by Category | |
|---|---|---|---|---|
| | Carrying value | Fair value | Loans and receivables | Financial liabilities at amortized cost |
| **Assets** | | | | |
| Cash | $ 907,977 | $ 907,977 | $ 907,977 | $ – |
| Trade and other receivables, net | 2,429,855 | 2,429,855 | 2,429,855 | – |
| Total | $ 3,337,832 | $ 3,337,832 | $ 3,337,832 | $ – |
| **Liabilities** | | | | |
| Trade and other payables | $ 4,130,526 | $ 4,130,526 | $ – | $ 4,130,526 |
| Income tax liabilities | 9,126 | 9,126 | – | 9,126 |
| Loans from shareholders | 1,150,000 | 1,150,000 | – | 1,150,000 |
| Total | $ 5,289,652 | $ 5,289,652 | $ – | $ 5,289,652 |

**19. Credit Risk Exposure and Concentration**

The table below shows the maximum exposure to credit risk of the Company per counterparty as of:

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | **Banks and financial institutions** | **Accredited customers** | **Related parties** | **Total** |
| **Cash** | **$ 814,658** | **$ –** | **$ –** | **$ 814,658** |
| **Due from factor** | **46,455** | **–** | **–** | **46,455** |
| **Trade and other receivables** | **–** | **216,913** | **–** | **216,913** |
| **Due from affiliates** | **–** | **–** | **122,270** | **122,270** |
| | **$ 861,113** | **$ 216,913** | **$ 122,270** | **$ 1,200,296** |

| | March 31, 2011 | | | |
|---|---|---|---|---|
| | Banks and financial institutions | Accredited customers | Related parties | Total |
| Cash | $ 907,977 | $ – | $ – | $ 907,977 |
| Due from factor | 1,221,147 | – | – | 1,221,147 |
| Trade and other receivables | – | 1,075,077 | – | 1,075,077 |
| Due from affiliates | – | – | 133,631 | 133,631 |
| | $ 2,129,124 | $ 1,075,077 | $ 133,631 | $ 3,337,832 |

Based on the above table, as of March 31, 2012, 72% and 28% and as of March 31, 2011, 64% and 36% of the Company's total financial assets are from banks and other financial institutions, and accredited customers and related parties, respectively, which management considers to have high quality credit ratings.

For the year ended March 31, 2012, sales to one customer accounted for 32% of gross sales. For the year ended March 31, 2011, three customers accounted for 51% of gross sales. For the years ended March 31, 2012 and 2011, sales under the Geoffrey Beene license amounted to approximately $5,482,000 and $7,206,000, respectively.

**20. Cost of Sales**

| | March 31, | |
|---|---|---|
| | **2012** | 2011 |
| Beginning inventory | **$ 3,235,490** | $ 3,830,229 |
| Purchases and other costs | **16,744,475** | 18,229,757 |
| Ending inventory | **(4,190,467)** | (3,235,490) |
| Cost of sales | **$ 15,789,498** | $ 18,824,496 |

**21. Distribution Expenses**

Distribution expenses predominantly consist of showroom and warehouse rent, samples, license fees, transport costs and consulting fees, amounting to approximately $1,804,000 and $1,636,000 for the years ended March 31, 2012 and 2011, respectively.

Transport and handling costs of $314,052 for the year ended March 31, 2011, were reclassified from cost of sales to distribution expenses to conform to current year presentation.

**22. Personnel Expenses and Numbers**

The average number of personnel employed by the Company during the years ended March 31, 2012 and 2011 was 20 and 30, respectively. The following table presents personnel expenses included in administrative expenses:

| | March 31, | |
|---|---|---|
| | **2012** | 2011 |
| Salaries | **$ 1,881,576** | $ 2,263,799 |
| Payroll taxes | **20,284** | 30,485 |
| Hospitalization and major medical insurance | **99,320** | 139,921 |
| | **$ 2,001,180** | $ 2,434,205 |

**23. Subsequent Events**

The Company has evaluated subsequent events through May 21, 2012, the date the financial statements were available for issuance.

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2012.

**Principal activity**

The principal activity of the Company was the trading of garments. There was no significant change in the nature of the Company's principal activity during the year.

**Results**

The Company's profit for the year ended 31 March 2012 and its state of affairs at that date are set out in the financial statements on pages 5 to 22.

**Property, plant and equipment**

Details of movements in the Company's property, plant and equipment during the year are set out in note 7 to the financial statements.

**Share capital**

Details of movements in the Company's share capital during the year are set out in note 9 to the financial statements.

**Directors**

The directors of the Company during the year were:

Deepak Kumar Seth

Pulkit Seth

In accordance with article 7 of the Company's articles of association, both directors will retire and, being eligible, will offer themselves for re-election.

**Directors' interests**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**Directors' interests in contracts**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies or fellow subsidiaries was a party during the year.

**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

Sd/-
Chairman

Hong Kong

18 May 2012

## INDEPENDENT AUDITORS' REPORT

**To the shareholder of Pearl Global Fareast Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Pearl Global Fareast Limited set out on pages 5 to 22, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2012, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-

Certified Public Accountants
Hong Kong

18 May 2012

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| REVENUE | 3 | **52,052,869** | 561,394 |
| Cost of sales | | **(47,629,312)** | (348,839) |
| Gross profit | | **4,423,557** | 212,555 |
| Other income | 3 | **7,252** | 110 |
| Administrative expenses | | **(2,945,558)** | (744,011) |
| Other operating expenses | | **–** | (2,960) |
| PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR | 4 | **1,485,251** | (534,306) |

## STATEMENT OF FINANCIAL POSITION

31 March 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | **39,744** | 84,959 |
| CURRENT ASSETS | | | |
| Trade receivables | 8 | **11,450,922** | – |
| Prepayments and deposits | | **1,145,908** | 12,453 |
| Due from the immediate holding company | 11(b) | **1,638,319** | 796,002 |
| Due from fellow subsidiaries | 11(b) | **39,845** | 319,916 |
| Cash and cash equivalents | | **2,824,215** | 107,454 |
| Total current assets | | **17,099,209** | 1,235,825 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | **34,253** | 39,530 |
| Due to fellow subsidiaries | 11(b) | **13,389,589** | 554 |
| Total current liabilities | | **13,423,842** | 40,084 |
| NET CURRENT ASSETS | | **3,675,367** | 1,195,741 |
| Net assets | | **3,715,111** | 1,280,700 |
| EQUITY | | | |
| Issued capital | 9 | **4,162,300** | 3,213,140 |
| Accumulated losses | | **(447,189)** | (1,932,440) |
| Total equity | | **3,715,111** | 1,280,700 |

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2012

| | Note | Issued capital HK$ | Accumulated losses HK$ | Total equity HK$ |
|---|---|---|---|---|
| At 1 April 2010 | | 3,213,140 | (1,398,134) | 1,815,006 |
| Total comprehensive loss for the year | | - | (534,306) | (534,306) |
| At 31 March 2011 and at 1 April 2011 | | 3,213,140 | ( 1,932,440) | 1,280,700 |
| Total comprehensive income for the year | | - | 1,485,251 | 1,485,251 |
| Issue of shares | 9 | 949,160 | - | 949,160 |
| At 31 March 2012 | | 4,162,300 | (447,189) | 3,715,111 |

## STATEMENT OF CASH FLOWS

Year ended 31 March 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) for the year | | **1,485,251** | ( 534,306) |
| Adjustments for: | | | |
| Interest income | 3 | **(448)** | (110) |
| Depreciation | 4 | **43,065** | 45,025 |
| Write-off of an amount due from a fellow subsidiary | 4 | **–** | 2,960 |
| | | **1,527,868** | (486,431) |
| Decrease/(increase) in trade receivables | | **(11,450,922)** | 81,612 |
| Decrease/(increase) in prepayments and deposits | | **(1,133,473)** | 28,616 |
| Decrease/(increase) in an amount due from the immediate holding company | | **(842,317)** | 563,268 |
| Decrease in amounts due from fellow subsidiaries | | **282,239** | 113,071 |
| Decrease in other payables and accruals | | **(5,277)** | (73,296) |
| Increase/(decrease) in amounts due to fellow subsidiaries | | **13,389,035** | (201,328) |
| Cash generated from operations | | **1,767,153** | 25,512 |
| Interest received | | **448** | 110 |
| Net cash flows from operating activities | | **1,767,601** | 25,622 |
| CASH FLOW FROM A FINANCING ACTIVITY | | | |
| Proceeds from issuance of shares | 9 | **949,160** | – |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **2,716,761** | 25,622 |
| Cash and cash equivalents at beginning of year | | **107,454** | 81,832 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **2,824,215** | 107,454 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **2,824,215** | 107,454 |

## NOTES TO FINANCIAL STATEMENTS

31 March 2012

### 1. CORPORATE INFORMATION

Pearl Global Fareast Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 10/F, Room B, Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

During the year, the Company was engaged in the trading of garments.

The Company is a wholly-owned subsidiary of Pearl Global Limited, a company incorporated in India. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on the National Stock Exchange in India.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements are presented in Hong Kong dollars ("HK$") and have been prepared under the historical cost convention.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain new and revised HKFRSs became effective for the first time during the current financial year but are not applicable to the Company, and accordingly, they have had no impact on the Company's financial statements for the year ended 31 March 2012.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the year ended 31 March 2012, in these financial statements. The Company is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Furniture and fixtures | 25% |
| Office equipment | $33^1/_3$% |
| Computer equipment | $33^1/_3$% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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 Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, which are not restricted as to use.

Financial instruments

*Financial assets*

The Company's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Company's financial liabilities are classified and accounted for as financial liabilities at amortised cost. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Provisions

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method.

Foreign currency transactions

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the dates when their fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss).

## 3. REVENUE AND OTHER INCOME

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold.

An analysis of other income is as follows:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Interest income | 448 | 110 |
| Foreign exchange gain | 3,495 | – |
| Others | 3,309 | – |
| | 7,252 | 110 |

## 4. PROFIT/(LOSS) FOR THE YEAR

The Company's profit/(loss) for the year is arrived at after charging/(crediting):

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Auditors' remuneration | 90,000 | 90,000 |
| Depreciation | 43,065 | 45,025 |
| Staff costs (excluding directors' remuneration (note 5)): | | |
| Salaries and allowances | 219,487 | 261,082 |
| Pension scheme contributions (defined contribution scheme) | 22,525 | 28,093 |
| | 242,012 | 289,175 |
| Write-off of an amount due from a fellow subsidiary | – | 2,960 |
| Foreign exchange differences, net | (3,495) | 1,344 |

## 5. DIRECTORS' REMUNERATION

None of the directors received any fees or emoluments in respect of their services rendered to the Company during the year (20 11: Nil).

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company has available tax losses brought forward from prior years to offset the assessable profits generated during the year. No provision for Hong Kong profits tax were made in the prior years as the Company did not generate any assessable profits in Hong Kong.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) for the current and prior years at the Hong Kong statutory rate of 16.5% to the tax amount at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | 2012 HK$ | % | 2011 HK$ | % |
|---|---|---|---|---|
| Profit/(loss) for the year | 1,485,251 | | (534,306) | |
| Tax at the statutory tax rate | 245,066 | 16.5 | (88,160) | (16.5) |
| Expenses not deductible for tax | – | – | 488 | 0.1 |
| Tax losses utilised from prior years | (251,438) | (16.9) | – | – |
| Tax losses not recognised | 6,372 | 0.4 | 87,672 | 16.4 |
| Tax at the effective tax rate | – | – | – | – |

As at the end of the reporting period, the Company had unused tax losses arising in Hong Kong of HK$457,596 (2011: HK$1,981,464), subject to the agreement of the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the Company.

At the end of the reporting period, deferred tax assets in respect of the unused tax losses have only been recognised to the extent to offset the deferred tax liabilities associated with chargeable temporary differences as the directors consider it uncertain that future taxable profits will be available to utilise all the unused tax losses. The net deferred tax assets not recognised are analysed as follows:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Unused tax losses | 75,503 | 326,941 |
| Depreciation in excess of depreciation allowance | (2,201) | (8,573) |
| | 73,302 | 318,368 |

## 7. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and fixtures HK$ | Office equipment HK$ | Computer equipment HK$ | Total HK$ |
|---|---|---|---|---|
| **31 March 2012** | | | | |
| At 31 March 2011 and at 1 April 2011: | | | | |
| Cost | 95,661 | 23,311 | 38,440 | 157,412 |
| Accumulated depreciation | (38,986) | (12,911) | (20,556) | (72,453) |
| Net carrying amount | 56,675 | 10,400 | 17,884 | 84,959 |
| At 1 April 2011, net of accumulated depreciation | 56,675 | 10,400 | 17,884 | 84,959 |
| Transfer to a fellow subsidiary | – | – | (2,150) | (2,150) |
| Depreciation provided during the year | ( 23,915) | ( 7,770) | ( 11,380) | ( 43,065) |
| At 31 March 2012, net of accumulated depreciation | 32,760 | 2,630 | 4,354 | 39,744 |
| At 31 March 2012: | | | | |
| Cost | 95,661 | 23,311 | 31,990 | 150,962 |
| Accumulated depreciation | (62,901) | (20,681) | (27,636) | (111,218) |
| Net carrying amount | 32,760 | 2,630 | 4,354 | 39,744 |
| **31 March 2011** | | | | |
| At 1 April 2010: | | | | |
| Cost | 95,661 | 23,311 | 57,400 | 176,372 |
| Accumulated depreciation | (15,071) | (5,141) | (11,429) | ( 31,641) |
| Net carrying amount | 80,590 | 18,170 | 45,971 | 144,731 |
| At 1 April 2010, net of accumulated depreciation | 80,590 | 18,170 | 45,971 | 144,731 |
| Transfer to a fellow subsidiary | – | – | (14,747) | (14,747) |
| Depreciation provided during the year | (23,915) | (7,770) | (13,340) | (45,025) |
| At 31 March 2011, net of accumulated depreciation | 56,675 | 10,400 | 17,884 | 84,959 |
| At 31 March 2011: | | | | |
| Cost | 95,661 | 23,311 | 38,440 | 157,412 |
| Accumulated depreciation | (38,986) | (12,911) | (20,556) | (72,453) |
| Net carrying amount | 56,675 | 10,400 | 17,884 | 84,959 |

**8. TRADE RECEIVABLES**

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 45 days. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at the end of the reporting period, all of the Company's trade receivables are current and are neither past due nor individually or collectively considered to be impaired, and these receivables are related to a number of diversified customers for whom there was no recent history of default.

**9. SHARE CAPITAL**

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Authorised: | | |
| 550,000 ordinary shares of US$1 each (2011: 500,000 ordinary shares of US$1 each) | **4,279,000** | 3,890,000 |
| Issued and fully paid: | | |
| 535,000 ordinary shares of US$1 each (2011: 413,000 ordinary shares of US$1 each) | **4,162,300** | 3,213,140 |

During the year, the movements in share capital were as follows:

(a) Pursuant to an ordinary resolution passed on 4 May 2011, the authorised share capital of the Company was increased from HK.$3,890,000 to HK.$4,279,000 by the creation of 50,000 additional shares of US$1 each, ranking pari passu in all respects with the existing share capital of the Company.

(b) On the same day, 112,000 ordinary shares ofUS$1 each were issued at par to the existing shareholder of the Company, which resulted in proceeds ofHK.$871,360. The purpose of the issue was to provide additional working capital.

(c) On 1 August 2011, 10,000 ordinary shares ofUS$1 each were issued at par to the existing shareholder of the Company, which resulted in proceeds of HK.$77,800. The purpose of the issue was to provide additional working capital.

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

| | Number of shares in issue | Issued capital HK.$ |
|---|---|---|
| At 1 April 2010 and 1 April 2011 | **413,000** | 3,213,140 |
| Issue of new shares ((b) and (c)) | **122,000** | 949,160 |
| 31 March 2012 | **535,000** | 4,162,300 |

**10. NOTE TO THE STATEMENT OF CASH FLOWS**

Major non-cash transaction

During the year, items of property, plant and equipment with an aggregate carrying amount of HK$2,150 (2011: HK$14,747) were transferred to a fellow subsidiary at a total consideration of HK$2,150 (2011: HK$14,747), which was settled by an increase in an amount due from the fellow subsidiary.

**11. RELATED PARTY TRANSACTIONS**

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the year:

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| Fellow subsidiaries: | | | |
| Purchases of goods | (i) | **47,616,860** | – |
| Management fees paid | (ii) | **36,000** | 36,000 |
| Rentals paid | (iii) | **140,040** | 186,720 |
| Immediate holding company: | | | |
| Sales of goods | (iv) | **12,453** | – |

Notes:

(i) The purchases were made with reference to the published prices and conditions offered by a fellow subsidiary to its major customers.

(ii) The management fees paid to a fellow subsidiary were determined based on terms mutually agreed between the Company and the fellow subsidiary.

(iii) The rentals paid to a fellow subsidiary were according to mutually agreed terms and conditions between the Company and the fellow subsidiary.

(iv) The sales to the immediate holding company were made with reference to the published prices and conditions offered by the Company to its major customers.

(b) Outstanding balances with related parties:

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

**12. FAIR VALUE**

At the end of the reporting period, the carrying amounts of the Company's financial assets and financial liabilities approximated to their fair values.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. The fair values of trade receivables, deposits, amounts due from fellow subsidiaries and the immediate holding company, cash and cash equivalents, other payables and accruals, and amounts due to fellow subsidiaries approximated to their carrying amounts largely due to the short term maturities of these instruments.

The Company did not have any financial assets and liabilities measured at fair value as at the end of each reporting period.

**13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's exposure to credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

*Credit risk*

The carrying amounts of cash and cash equivalents, amounts due from the immediate holding company and fellow subsidiaries, and trade receivables, represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's cash and cash equivalents are deposited with creditworthy banks with no recent history of default. The Company has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. The maximum exposure for trade receivables is the carrying amount as disclosed in note 8 to the financial statements. At the end of the reporting period, all (2011: all) of the Company's trade receivables were due from the Company's top two customers.

The board of directors considers credit risk for the Company's amounts due from the immediate holding company and fellow subsidiaries is minimal as the immediate holding company and fellow subsidiaries have sufficient cash to settle these amounts due.

*Liquidity risk*

In the management of liquidity risk, the Company monitors and maintains a level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from group companies.

The Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, either have no fixed terms of repayment or repayable within three months subsequent to the end of the reporting period.

*Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to its shareholder, return capital to the shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 31 March 2011.

**14. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

## DIRECTORS' REPORT

To the Shareholders,

The Directors of your Company have pleasure in presenting the 5th Annual Report on the business and operations of the Company and the Audited Financial Accounts for the year ended 31st March, 2012.

**Financials**

The performance of the Company for the financial year ended 31st March, 2012 is summarized below:

(Rs. in Lacs)

| PARTICULARS | **2011 – 2012** | 2010 – 2011 |
|---|---|---|
| Sales Turnover | **18.62** | 147.95 |
| Other Income | **5.66** | 0.73 |
| Profit before Tax | **(345.90)** | (1012.19) |
| Provision for Tax | **48.33** | 303.22 |
| Profit (Loss) after Tax | **(297.57)** | (708.97) |
| Transfer to General Reserve | **–** | – |

**Dividend**

The Directors do not recommend any dividend for the year under review.

**Directors**

The Board of Directors, in their meeting held on 30th May, 2012, appointed Mr. Vinod Vaish as Additional Director of your Company in place of Mr. Shelly Cherian, who resigned from the Directorship of the Company on 30th May, 2012.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of your Company, Mr. Pulkit Seth, would retire by Rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. The Company has also received notice for re-appointment of Mr. Vinod Vaish as Director of the Company. Necessary resolutions for their re-appointment are included in the notice convening Annual General Meeting.

**Directors Identification Number (DIN)**

The following are the Directors Identification Number (DIN) of your Directors:

Mrs. Payel Seth - 00003035 Mr. Pulkit Seth - 00003044 Mr. Vinod Vaish - 01945795

**Auditors**

The Auditors of your Company, M/s S. R. Dinodia & Co, Chartered Accountants (Regn. No. 001478N), New Delhi, will retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

**Auditors' Report**

The notes to Accounts referred to in the Auditor's Report are self explanatory and therefore do not call for any further explanation.

**Public Deposits**

During the year under review, your Company has neither invited nor accepted any deposits from Public or Shareholders.

**Notes to Accounts**

The observations of the Auditors, if any, have been adequately explained in Notes to Accounts and need no further clarification.

**Directors' Responsibility Statement**

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

i) That in the preparation of the Annual Accounts for the financial year ended 31st March 2012, the applicable accounting standards issued by the Institute of Chartered Accountants of India have been followed. There are no material departures from prescribed accounting standards in the adoption of the Accounting Standards;

ii) That the Directors have adopted such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv) That the Directors have prepared the accounts for the financial year ended 31st March, 2012 as a Going Concern and on accrual basis.

**Particulars of Employees**

Particulars of employees required under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 are Nil.

**Conservation of Energy and Technology Absorption**

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Rule 2 of the Companies (Disclosures of Particulars in the Report of the Board of Directors) Rules, 1988 relating to 'Energy Conservation' and 'Technology Absorption' are not applicable.

**Foreign Exchange Earnings and Outgo**

There is no Foreign Exchange Earnings and outgo during the year.

The company at present does not envisage any export and has no export plans in next 3 years.

**Acknowledgements**

Your Directors would like to express their grateful appreciation for assistance and co-operation received from the Banks, Customers, Government Authorities, Vendors and Members during the year under review.

for and On Behalf of the Board
for **LERROS FASHIONS INDIA LIMITED**

| | | |
|---|---|---|
| Place: New Delhi | **(Pulkit Seth)** | **(Vinod Vaish)** |
| Date: 30th May, 2012 | Director | Director |
| | DIN: 00003044 | DIN: 01945795 |

## AUDITORS' REPORT

To the Share Holders of **M/S LERROS FASHIONS INDIA LIMITED**

We have audited the attached Balance sheet of **M/S LERROS FASHIONS INDIA LIMITED as at 31st March, 2012**, Statement of Profit & Loss Account and also the cash flow statement for year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 [as amended by the Companies (Auditor's Report) (Amendment) Order 2004] issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the annexure referred to above, we report that:

a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.

b) In our opinion proper books of account as required by law have been kept by the company so far as appears from our examination of those books.

c) The Company's Balance sheet, Statement of Profit & Loss Account and cash flow statement dealt with by this report are in agreement with the books of account.

d) In our opinion, the Balance Sheet, Statement of Profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub section (3C) of Section 211 of the Companies Act, 1956.

e) On the basis of written representations received from the directors as on 31st March, 2012 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2012 from being appointed as director in term of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

   i) in the case of the Balance Sheet of the state of affairs of the Company as at **31st March, 2012;**

ii) in the case of the Statement of Profit & Loss Account, of the Loss for the year ended on that date;

iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For **S.R. DINODIA & CO.,**
CHARTERED ACCOUNTANTS
Regn. No. 001478N

**(SANDEEP DINODIA)**
PARTNER
M. NO. 083689

PLACE: NEW DELHI
DATED:

## ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our audit report of even date)

**RE: M/s. Lerros Fashions India Ltd.**

i) a. The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets which still need updation.

b. As explained to us, physical verification of a major portion of fixed assets as at 31st March 2012 was conducted by the management during the year. In our opinion, the frequency of physical verification is reasonable. No material discrepancies were noticed on such verification.

c. In our opinion and according to the information and explanation given to us, the company has not disposed off substantial part of fixed assets during the year.

ii) a. The inventory has been physically verified during the year by the management except the inventories in transit. In our opinion, the frequency of physical verification followed by the management is reasonable. However the company does not hold any inventory at the end of the financial year.

b. In our opinion, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.

c. In our opinion, the company is maintaining proper records of inventory. The discrepancies noticed on verification between physical stocks and book records were not material. However the company does not have any inventory at the end of the financial year.

iii) During the year company has neither granted nor taken any loans, secured or unsecured to/ from the parties covered in the register maintained u/s 301 of the Companies Act 1956. Therefore, the provisions of clause 4(iii) of the Companies (Auditor's Report) Order, 2003 are not applicable.

iv) In our opinion and according to the information and explanations given to us, there is adequate internal control procedure commensurate with the size of the company and the nature of its business with regard to the purchase of inventory, fixed assets and for the sales of goods. Further, on the basis of our examination of the books and records of the company carried out in accordance with the generally accepted auditing practices, there is no continuing failure to correct the weaknesses in the aforesaid internal control systems.

v) a. Based on the audit procedures applied by us and according to the information and explanations given to us, we are of opinion that the transactions that need to be entered into a register maintained under section 301 of the Companies Act, 1956 are being so entered.

b. In our opinion and according to explanation given to us, the transactions made in pursuance of contracts and arrangements entered in the register maintained u/s 301 of the Companies Act, 1956 and exceeding values of Rs.5 Lacs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant times.

vi) In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits within the meaning of section 58A and 58AA of the Companies Act, 1956 and rules framed there under.

vii) In our opinion, the company has an internal audit system which needs to be strengthened so as to commensurate with the nature and size of the business.

viii) The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act 1956, for any of the products of the company.

ix) a. According to the information and explanation given to us, the company is generally regular in depositing with appropriate authorities undisputed applicable statutory dues including income tax, wealth tax and other statutory dues as applicable to it.

b. According to the records of the Company examined by us and on the basis of the information and explanations provided, there is no amount outstanding in respect of income tax, wealth tax and other statutory dues on account of any dispute as at 31st March, 2012.

x) The accumulated losses of the company have exceeded the 50% of its net worth. The company has incurred cash loss during the year and in the immediately previous financial year.

xi) Based on our audit procedure and on the basis of information and explanations given to us by the management, company has not taken any loan from the financial institutions. Therefore, the provisions of clause 4(xi) of the Companies (Auditor's Report) Order, 2003 are not applicable.

xii) The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of clause 4(xii) of the Companies (Auditor's Report) Order, 2003 are not applicable.

xiii) In our opinion, the company is not a chit fund or nidhi/ mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditors Report) Order, 2003 are not applicable to the company.

xiv) The Company is not dealing or trading in shares, securities, debentures and other investments. Therefore, the provisions of clause 4(xiv) of the Companies (Auditors Report) Order, 2003 are not applicable to the company.

xv) In our opinion and on the basis of information and explanation provided, the company has not given any guarantees for loans taken by others from banks or financial institutions.

xvi) On the basis of information and explanation given to us, no term loans were raised during the year by the company

xvii) On the basis of information and explanation given to us and overall examination of the balance sheet as at 31st March 2012, we report that no funds have been raised on short term basis which have been used for long term investments.

xviii) During the year, the company has allotted preference shares on preferential basis to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956. The price at which the shares have been issued is not prejudicial interest to the interest of the company.

xix) During the year covered by our audit report, the company has not issued any debentures during the year. Therefore, the provisions of clause 4(xix) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company

xx) According to the information and explanation given to us, the company has not raised any money by way of public issue during the year. Therefore, the provisions of clause 4(xx) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.

xxi) During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India and according to the information and explanation given to us during the year, we have neither come across any instance of fraud on or by the Company, noticed or reported nor have we been informed of such case by the management.

For **S.R. DINODIA & CO.,**
CHARTERED ACCOUNTANTS,
Regn No.001478N

**(SANDEEP DINODIA)**
PARTNER
M. No. : 083689

Place: New Delhi
Date: 30th May, 2012

## BALANCE SHEET AS AT MARCH 31, 2012

(Amount in Rs.)

| PARTICULARS | Note No. | As At March 31, 2012 | As At March 31, 2011 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share Capital | 3 | 336,391,450 | 316,291,450 |
| Reserves and surplus | 4 | (224,322,526) | (194,565,527) |
| | | 112,068,924 | 121,725,923 |
| **Share application money pending allotment** | 5 | – | 25,110,670 |
| **Non-current liabilities** | | | |
| Other Long term liabilities | 6 | 360,500 | 23,843,498 |
| | | 360,500 | 23,843,498 |
| **Current liabilities** | | | |
| Trade payables | 7 | 3,850,471 | 7,080,680 |
| Other current liabilities | 7 | 6,931,439 | 4,991,869 |
| | | 10,781,910 | 12,072,549 |
| **TOTAL** | | 123,211,334 | 182,752,640 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | 8 | | |
| Tangible assets | | 2,223,710 | 4,214,015 |
| Intangible assets | | – | 1,797,145 |
| Non-current investments | | – | – |
| Deferred tax assets (net) | 9 | 82,131,166 | 77,297,956 |
| Long-term loans and advances | 10 | 5,176,353 | 22,028,675 |
| Other non-current assets | 12 | 11,014,563 | 190,000 |
| | | 100,545,792 | 105,527,791 |
| **Current assets** | | | |
| Inventories | 11 | – | 10,850,700 |
| Trade receivables | 12 | 7,231,255 | 42,629,564 |
| Cash and cash equivalents | 13 | 5,239,466 | 8,938,560 |
| Short-term loans and advances | 10 | 10,037,554 | 14,786,232 |
| Other current assets | 12.2 | 157,267 | 19,793 |
| | | 22,665,542 | 77,224,849 |
| **TOTAL** | | 123,211,334 | 182,752,640 |
| Summary of Significant Accounting Policies | 2.3 | | |

The accompanying notes are an integral part of the financial statements

As per our report of even date attached

On behalf of the Board of Directors

**S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 01478N

**(SANDEEP DINODIA)**
Partner
M. No. 083689

**(PULKIT SETH)**
Director
DIN 00003044

**(PAYEL SETH)**
Director
DIN 00003035

Place : New Delhi
Dated : 30th May, 2012

## PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2012

(Amount in Rs.)

| PARTICULARS | Note No. | For the year ended March 31, 2012 | For the year ended March 31, 2011 |
|---|---|---|---|
| **Revenue from operations** | 14 | 5,714,577 | 14,795,432 |
| Less: Net Sales Return | | (3,852,737) | – |
| Other income | 15 | 565,645 | 73,191 |
| **Total Income** | | 2,427,485 | 14,868,623 |
| **Expenses:** | | | |
| Changes in inventories of finished goods, work-in-progress and Stock-in-Trade | 16 | 10,855,713 | 39,069,066 |
| Employee benefits expense | 17 | 103,608 | 15,025,639 |
| Finance costs | 18 | 25,803 | 106,856 |
| Depreciation and amortization expense | 8 | 364,280 | 2,449,646 |
| Other expenses | 19 | 22,245,120 | 57,823,796 |
| **Total expenses** | | 33,594,524 | 114,475,003 |
| **Profit before exceptional items and tax** | | (31,167,039) | (99,606,380) |
| Exceptional items | 20 | 3,423,170 | 1,612,743 |
| **Profit before tax** | | (34,590,209) | (101,219,123) |
| **Tax expense:** | | | |
| Provision for Deferred Tax Liability / (Assets) | | (4,833,210) | (30,322,105) |
| **Profit (Loss) for the period** | | (29,756,999) | (70,897,018) |
| **Earnings per equity share:** | | | |
| Basic | 23 | (1.08) | (2.84) |
| Diluted | | (1.08) | (2.84) |
| Summary of Significant Accounting Policies | 2.3 | | |

The accompanying notes are an integral part of the financial statements

As per our report of even date attached

On behalf of the Board of Directors

**S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 01478N

**(SANDEEP DINODIA)**
Partner
M. No. 083689

**(PULKIT SETH)**
Director
DIN 00003044

**(PAYEL SETH)**
Director
DIN 00003035

Place : New Delhi
Dated : 30th May, 2012

## CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2012

| | | For the year ended March 31, 2012 | For the year ended March 31, 2011 |
|---|---|---|---|
| A. | **Net Profit Before Tax and Exceptional Items** | (34,937,045) | (101,119,015) |
| | Adjustments : | | |
| | Depreciation | 364,280 | 2,449,646 |
| | Prior Period Expenses | 346,834 | (100,108) |
| | Loss on sale of Fixed assets | 3,423,170 | 1,815,169 |
| | **Operating Profit /(loss) before working capital changes** | (30,802,761) | (96,954,308) |
| | Adjustments for : | | |
| | Trade and Other Receivables | 24,573,747 | 37,921,046 |
| | Loans & Advances | 21,527,020 | 11,008,910 |
| | Inventories | 10,850,700 | 16,631,363 |
| | Trade Payables | (24,773,637) | (8,772,884) |

| | | For the year ended March 31, 2012 | For the year ended March 31, 2011 |
|---|---|---|---|
| | **Cash Generated from operations** | **1,375,069** | (40,165,873) |
| | Direct Taxes (Paid)/ Refunds | **(63,493)** | (1,578,886) |
| | **Net Cash Generated / (used) in operating Activities** | **1,311,576** | (41,744,759) |
| **B.** | **Cash Flow from Investing Operations:** | | |
| | (Purchase)/Sale of Fixed Assets | **0** | 3,088,350 |
| | **Cash from investing activities** | **0** | 3,088,350 |
| **C.** | **Cash Flow from Financing Activities** | | |
| | Net Proceeds from issue of Share Capital | **20,100,000** | 54,315,550 |
| | Net Proceeds from issue Share Application | **(25,110,670)** | (7,389,330) |
| | Loans taken-short term | **–** | – |
| | **Net cash Generated /(used) in financing activities** | **(5,010,670)** | 46,926,220 |
| | **Increase in Cash/Cash equivalents (A+B+C)** | **(3,699,094)** | 8,269,810 |
| | **Net Increase in Cash/Cash equivalents (A+B+C)** | **(3,699,094)** | 8,269,810 |
| | **Cash / Cash equivalents at the beginning of the year** | **9,128,560** | 858,750 |
| | **Cash / Cash equivalents at the close of the year** | **5,429,466** | 9,128,560 |
| | | **(3,699,094)** | 8,269,810 |
| | **Components of Cash and Cash equivalents** | | |
| | Cash and Cheques on hand | **350,243** | 8,114 |
| | Balances with Scheduled Banks | | |
| | i) In Current Accounts | **2,389,223** | 6,330,446 |
| | ii) In Fixed Deposits | **2,690,000** | 2,790,000 |
| | | **5,429,466** | 9,128,560 |

As per our report of even date attached

For & on behalf of Board of Directors

**S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 01478N

**(SANDEEP DINODIA)**
Partner
M. No. 083689
Place : New Delhi
Dated : 30th May, 2012

**(PULKIT SETH)**
Director
DIN 00003044

**(PAYEL SETH)**
Director
DIN 00003035

## Notes to financial statements for the year ended March 31, 2012

**Note 1**

**Corporate Information**

Lerros Fashions India Limited is a limited company domiciled in India and incorporated under the provisions of the Comapnies Act,1956. The company is primarily engaged in manufacturing, distribution and retailing of ready to wear apparels in India under a brand licensing agreement with Lerros GmbH, Germany.

**Note 2**

**2.1 Basis of Preparation**

The financial statements have been prepared to comply with the mandatory Accounting Standards and the relevant provisions of the Companies Act, 1956 under the historical cost convention and on accrual basis of accouting in accordance with Generally Accepted Accounting Principles (GAAP). The accounting policies have been consistently applied by the company unless otherwise stated.

**2.2 Uses of Estimates**

The preparation of financial statements is in conformity with generally accepted accounting principles which requires making of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets & liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting year. Differences between the actual results and estimates are recognized in the year in which the results are known / materialized.

**Note 2.3 Summary of Significant Accounting Policies**

**a. Change in Accounting Policy**

**Presentation and disclosure of financial statements**

During the financial year ended March 31, 2012, the revised Schedule VI notified under the Companies Act 1956, has become applicable to the company for preparation and presentation of its financial statements. The adoption of revised Schedule VI does not impact recognition and measurement principles followed for preparation of financial statements. However, it has significant impact on presentation and disclosures made in the financial statements. Consequently, the figures of the previous year have been reclassified, regrouped and rearranged wherever necessary to make them comparable with those of the current year.

**b. Inventories**

Inventories of traded goods are valued at lower of procurement cost calculated on FIFO basis or estimated net realizable value.

**c. Cash Flow Statement**

Cash flows are reported using the indirect method as specified in Accounting Standard (AS-3) 'Cash Flow Statement.

**d. Depreciation**

i) Depreciation on fixed assets is provided on Straight Line Method at the rates and in the manner as prescribed in Schedule XIV of the Companies Act. Fixed Assets Costing upto Rs. 5,000/- are depreciated fully in the year of purchase.

ii) Software and Website are amortized over the period of 5 years which in the opinion of management is their estimated economic life.

iii) Leasehold Improvements are amortized over the period of Lease.

**e. Revenue Recognition**

i) Revenue is recognized on accrual basis on transfer of risk and reward to the customers.

Sales of goods to distributors, franchisees and dealers are recognized on door delivery basis which coincides with transfer of risk and reward as per the agreements with the customers

Sale of goods at own/rented outlets are recognized on the basis of delivery of goods to the customers.

Sales are accounted net of sales returns, sales tax and trade discounts.

ii) Interest income is recognized on time proportion basis.

iii) Royalty is recognized on accrual basis.

**f. Fixed Assets**

Fixed Assets are stated at cost less accumulated depreciation. Cost comprises the purchase price and any attributable cost including borrowing costs of bringing the asset to its working condition for its intended use

**g. Foreign Currency Transaction**

The transactions in foreign currency are accounted for at the rate prevailing as on the transaction date. Gain/(Loss) arising out of fluctuation in rate between transaction date and settlement date are recognized in the profit and loss account.

The monetary items denominated in the foreign currency are stated at the exchange rate prevailing at the year end and the overall net gain/(loss) is adjusted to the profit and loss account.

**h. Leases**

(i) Lease agreements executed after April 1, 2001 for taking assets on lease are classified as either finance lease or operating lease and are accounted for in accordance with the Accounting Standard 19.

Lease rent paid for leased assets in respect of which agreements were entered into prior to April 1, 2001 are charged to the Profit and loss account.

(ii) Rental Income from the assets leased out under operating lease is recognized on accrual basis over the lease term.

**i. Taxes On Income**

Current tax is amount of tax payable on the taxable income for the year as determined in accordance with the provisions of the Income Tax Act, 1961.

Deferred tax is recognized on timing differences being the differences between taxable incomes and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets in respect of unabsorbed depreciation and carry forward of losses are recognized if there is a virtual certainty that there will be sufficient future taxable income available to reverse such losses.

**j. Provision, Contingent Liabilities and Contingent Assets**

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognized but are disclosed in the Notes to Account. Contingent assets are neither recognized nor disclosed in the financial statements.

**k. Impairment of Assets**

An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss is charged to the Profit & Loss Account in the year in which an asset is identified as impaired. The impairment loss recognized in prior accounting period is reversed if there has been a change in the estimate of recoverable amount.

(Amount in Rupees)

| | As at March 31, 2012 | As at March 31, 2011 |
|---|---|---|
| **Note 3 : Share Capital** | | |
| **Authorised Share Capital** | | |
| 30,500,000 (March 31, 2011: 32,500,000) Equity Shares of Rs. 10/- each | **305,000,000** | 325,000,000 |
| 6,000,000 (March 31, 2011: 4,000,000) 10.5% Non Cumulative Redeemable Preference Shares of Rs 10/- each fully paid up | **60,000,000** | 40,000,000 |
| | **365,000,000** | 365,000,000 |
| **Issued, Subscribed & Paid-up Shares** | | |
| **Equity Share Capital** | | |
| 27,639,145 (March 31, 2011: 27,639,145) Equity Shares of Rs. 10/- each fully paid up | **276,391,450** | 276,391,450 |
| **Preference Share Capital** | | |
| 6,000,000 (March 31, 2011: 3,990,000)10.5 % Non Cumulative Redeemable Preference Shares of Rs 10/- each fully paid up | **60,000,000** | 39,900,000 |
| **Total Issued, Subscribed & Paid-up Capital** | **336,391,450** | 316,291,450 |

**a. Reconciliation of the shares outstanding at the beginning and at the end of the year**

(Amount in Rupees)

| | **March 31, 2012** | | March 31, 2011 | |
|---|---|---|---|---|
| | **No. of Shares** | **Amount** | No. of Shares | Amount |
| Equity Share Capital | | | | |
| Balances of Shares at the begning of the reporting period | **27,639,145** | **276,391,450** | 27,639,145 | 276,391,450 |
| Add:- Addition during the year | **–** | **–** | – | – |
| Less:- Buy back during the year | **–** | **–** | – | – |
| Balances of Shares at the end of the reporting period | **27,639,145** | **276,391,450** | 27,639,145 | 276,391,450 |

(Amount in Rupees)

| | **March 31, 2012** | | March 31, 2011 | |
|---|---|---|---|---|
| **Preference Share Capital** | **No. of Shares** | **Amount** | No. of Shares | Amount |
| Balances of Shares at the begning of the reporting period | **3,990,000** | **39,900,000** | 39,900,000 | 399,000,000 |
| Add:- Addition during the year | **6,000,000** | **60,000,000** | – | – |
| Less:- Redeemed during the year | **3,990,000** | **39,900,000** | – | – |
| Balances of Shares at the end of the reporting period | **6,000,000** | **60,000,000** | 39,900,000 | 399,000,000 |

**b. Terms/rights attached to Equity shares**

The company has only one class of equity shares having a par value of Rs.10 per share. Each holder of Equity shares is entitled to one vote per share.

In the event of liquidation of the company, the holders of equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

**c. Details of shareholders holding more than 5% shares in the company**

| | **March 31, 2012** | | March 31, 2011 | |
|---|---|---|---|---|
| | **No. of Shares** | **% holding** | No. of Shares | % holding |
| Pearl Global Industries Limtied (Formerly House of Pearl Fashions Limited) | **16,483,487** | **59.64%** | 16,483,487 | 59.64% |
| Lerros Moden GmbH, Germany | **11,055,658** | **40.00%** | 11,055,658 | 40.00% |

**d. Details of Redemption and Issue of Preference Shares**

| Type | No. of Shares | Date of Issue | Terms of Redemption |
|---|---|---|---|
| 10.5% Redeemable Preference Shares | 3,000,000 | 19.11.2011 | 6 months after the date of allotment but not later than 5 years. |
| 10.5% Redeemable Preference Shares | 3,000,000 | 10.03.2012 | |

(Amount in Rupees)

| | As at March 31, 2012 | As at March 31, 2011 |
|---|---|---|
| **Note 4 : Reserves and surplus** | | |
| **Surplus / Profit & Loss** | | |
| Balances at the begning of the year | **(194,565,527)** | (123,668,509) |
| Profit/(Loss) for the year | **(29,756,999)** | (70,897,018) |
| Balances at the close of year | **(224,322,526)** | (194,565,527) |
| **Total Reserves & Surplus** | **(224,322,526)** | (194,565,527) |
| **Note 5 : Share application pending allotment** | | |
| Share Application Money Received | **–** | 25,110,670 |
| | **–** | 25,110,670 |
| **Note 6 : Other long term Liabilities** | | |
| Other Liabilities | **360,500** | 2,346,198 |
| Customer deposit | **–** | 21,497,300 |
| | **360,500** | 23,843,498 |
| **Note 7 : Other Current Liabilities** | | |
| **Trade Payables (Refer note below for details of dues to micro and small enterprises)** | | |
| -Others | **3,850,471** | 7,080,680 |
| **Other liabilities:** | | |
| Security Deposit | **5,290,260** | 200,000 |
| Others: | | |
| Statutory dues payable | **1,641,179** | 4,791,869 |
| | **6,931,439** | 4,991,869 |

a) Pursuant to amendments to schedule VI to Companies Act, 1956 vide notification number GSR 719 (E) dated November 16, 2007, there is no amount due to Micro, small & medium enterprises as defined in Industries (Development and Regulation) Act, 1951.

b) Contingent liabilities

| | | |
|---|---|---|
| (a) Claims against the company not acknowledged as debts: | | |
| i) The claim represent a counter claim including interest by one of the distributor against the company's claim of Rs. 9,979,426 plus interest pending under Arbitration. | **17,970,483** | – |
| ii) The claim represent a counter claim by one of the distributor, Numero Uno Company Limited (NUCL) against the Company's claim of Rs. 118,757,638 pending under Arbitration. (Refer Note 26) | **128,202,834** | – |
| (b) Other money for which the company is contingently liable. | | |
| i) Sales Tax Liability against non-receipt of 'C' Form from a customer | **880,192** | – |
| | **147,053,509** | – |

**NOTE 8 : FIXED ASSETS**

| PARTICULARS | GROSS BLOCK | | | | DEPRECIATION | | | | NET BLOCK | |
|---|---|---|---|---|---|---|---|---|---|---|
| | AS AT 01.04.2011 | ADDITION | DEDUCTION | AS AT 31.03.2012 | AS AT 01.04.2011 | FOR THE YEAR | DEDUCTION/ ADJUSTMENTS | AS AT 31.03.2012 | AS AT 31.03.2012 | AS AT 31.03.2011 |
| **A. Tangible Assets** | | | | | | | | | | |
| Plant and Equipment | 1,054,968 | – | – | **1,054,968** | 125,199 | 50,111 | – | **175,310** | 879,658 | 929,769 |
| Furniture and fixtures | 8,159,174 | – | 3,516,538 | **4,642,636** | 6,127,191 | – | 1,890,513 | **4,236,678** | 405,958 | 2,031,983 |
| Office Equipments | 29,990 | – | – | **29,990** | 1,343 | 1,425 | – | **2,768** | 27,222 | 28,647 |
| Computers | 1,939,000 | – | – | **1,939,000** | 715,384 | 312,744 | – | **1,028,128** | 910,872 | 1,223,616 |
| **Total** | 11,183,132 | – | 3,516,538 | **7,666,594** | 6,969,117 | 364,280 | 1,890,513 | **5,442,884** | 2,223,710 | 4,214,015 |
| **B. Intangible Assets** | | | | | | | | | | |
| Goodwill | 2,831,344 | – | 2,831,344 | **–** | 1,368,354 | – | 1,368,354 | **–** | **–** | 1,462,990 |
| Computer software | 501,865 | – | 501,865 | **–** | 167,710 | – | 167,710 | **–** | **–** | 334,155 |
| **Total** | 3,333,209 | – | 3,333,209 | **–** | 1,536,064 | – | 1,536,064 | **–** | **–** | 1,797,145 |
| **Grand Total** | 14,516,341 | – | 6,849,747 | **7,666,594** | 8,505,181 | 364,280 | 3,426,577 | **5,442,884** | 2,223,710 | 6,011,160 |
| **Previous Year** | 21,407,863 | 461,790 | 7,353,312 | **14,516,341** | 8,043,537 | 2,449,646 | 1,988,002 | **8,508,180** | 6,011,160 | 13,364,327 |

**Note 9 : Deferred Tax Assets (net)**

(Amount in Rupees)

| | **As At March 31, 2012** | As At March 31, 2011 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Provision for Doubtful debts | **3,155,942** | 65,942 |
| Preliminary Expenses | **773** | 3,090 |
| Brought forward loss | **75,575,462** | 74,006,320 |
| Brought forward depreciation | **3,635,149** | 3,591,854 |
| **Total A** | **82,367,326** | 77,667,206 |
| **Deferred Tax Liability** | | |
| Fixed assets: Impact of difference between tax depreciation and depreciation/ amortization charged for the financial reporting | **236,160** | 369,250 |
| **Total B** | **236,160** | 369,250 |
| **Deferred tax asset/(liability) (net)** | **82,131,166** | 77,297,956 |

**Note 10 : Loans and Advances**

(Amount in Rupees)

| | Non - current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| **Security Deposits** | | | | |
| - Unsecured - Considered Good | **2,691,645** | 19,666,405 | **597,038** | 6,432,574 |
| -Unsecured - Considered Doubtful | **1,913,403** | 213,403 | **–** | – |
| | **4,605,048** | 19,879,808 | **597,038** | 6,432,574 |
| Less: Provision for Doubtful Security Deposits | **1,913,403** | 213,403 | **–** | – |
| | **2,691,645** | 19,666,405 | **597,038** | 6,432,574 |
| **Advances Recoverable in cash or kind** | | | | |
| - Unsecured - Considered Good | **340,244** | 281,300 | **9,432,146** | 8,353,658 |
| - Unsecured - Considered Doubtful | **480,000** | – | **–** | – |
| | **820,244** | 281,300 | **9,432,146** | 8,353,658 |
| Less: Provision for Doubtful Advances | **480,000** | – | **–** | – |
| | **340,244** | 281,300 | **9,432,146** | 8,353,658 |
| **Other Loans and Advances** | | | | |
| Prepaid Expenses | – | – | **8,370** | – |
| Advance Tax [Net of provisions of Rs. NIL (March 31 2011: Rs. NIL)] | **2,144,464** | 2,080,970 | **–** | – |
| | **2,144,464** | 2,080,970 | **8,370** | – |
| | **5,176,353** | 22,028,675 | **10,037,554** | 14,786,232 |

(Amount in Rupees)

**Note 11 : Inventories**

| | | |
|---|---|---|
| Finished Goods (Readymade Garments) | **–** | 10,850,700 |
| | **–** | 10,850,700 |

**Note 12 : Trade Receivables And Other Assets**

(Amount in Rupees)

| | Non - current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| **Trade Receivables** | | | | |
| Outstanding for a period exceeding six months from the date they are due for payment | | | | |
| Unsecured - Considered Good | **–** | – | **7,231,255** | 41,780,762 |
| Unsecured - Considered Doubtful | **–** | – | **–** | – |
| | **–** | – | **7,231,255** | 41,780,762 |
| Less: Provision for doubtful receivables | **–** | – | **–** | – |
| | **–** | – | **7,231,255** | 41,780,762 |
| Others | | | | |
| Unsecured - Considered Good | **–** | – | **–** | 848,802 |
| | **–** | – | **7,231,255** | 42,629,564 |

(Amount in Rupees)

| | Non - current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| **Other Assets** | | | | |
| **Trade Receivables** | | | | |
| Unsecured - Considered Good | **10,824,563** | – | **–** | – |
| Unsecured - Considered Doubtful | **18,723,475** | – | **–** | – |
| | **29,548,038** | – | **–** | – |
| Less: Provision for doubtful receivables | **18,723,475** | – | **–** | – |
| | **10,824,563** | – | **–** | – |
| **Others** | | | | |
| Interest Accrued but not due | **–** | – | **157,267** | 19,793 |
| Non-current bank balances | **190,000** | 190,000 | **–** | – |
| (Refer Note 13) | | | | |
| | **11,014,563** | 190,000 | **157,267** | 19,793 |

**Note 13 : Cash and cash equivalents**

(Amount in Rupees)

| | Non - current | | Current | |
|---|---|---|---|---|
| | **March 31, 2012** | March 31, 2011 | **March 31, 2012** | March 31, 2011 |
| Balances with Banks:- | | | | |
| On current accounts | **–** | **–** | **2,389,223** | 374,840 |
| Cash on hand | **–** | **–** | **350,243** | 8,114 |
| Cheques, Drafts on hand | | | **–** | 5,955,606 |
| | **–** | **–** | **2,739,466** | 6,338,560 |
| **Other Balances** | | | | |
| Balance with bank | | | | |
| Deposits with original maturity for more than 3 months but less than 12 months | **190,000** | 190,000 | **2,500,000** | 2,600,000 |
| | **190,000** | 190,000 | **2,500,000** | 2,600,000 |
| Amount disclosed under non-current assets | **190,000** | 190,000 | **–** | **–** |
| | **–** | **–** | **5,239,466** | 8,938,560 |

**(Amount in Rupees)**

| | **For the year ended on March 31, 2012** | **For the year ended on March 31, 2011** |
|---|---|---|
| **Note 14 : Revenue from operations** | | |
| Revenue from - Sale of Product | **2,564,577** | 9,395,432 |
| Other Operating Revenues (Royalty Income) | **3,150,000** | 5,400,000 |
| **Total** | **5,714,577** | 14,795,432 |
| **Note 15 : Other Income** | | |
| Interest on FDR | **509,758** | 47,866 |
| Net gain from foreign currency transactions and translations | **54,884** | – |
| Misc. Income | **1,003** | 25,325 |
| | **565,645** | 73,191 |

**(Amount in Rupees)**

| | **For the year ended on March 31, 2012** | **For the year ended on March 31, 2011** |
|---|---|---|
| **Note 16: Changes in Inventories of finished goods, work in progress and stock in trade** | | |
| Changes in inventories of finished goods | **10,855,713** | 39,069,066 |
| | **10,855,713** | 39,069,066 |
| **Note 17 : Employee benefit expense** | | |
| Salaries & Wages | **100,502** | 14,650,361 |
| Contribution to Provident and Other fund | **1,856** | 65,909 |
| Staff Welfare Expenses | **1,250** | 309,369 |
| | **103,608** | 15,025,639 |
| **Note 18 : Finance Cost** | | |
| Interest Expense | **25,803** | 106,856 |
| | **25,803** | 106,856 |
| **Note 19 : Other Expenses** | | |
| Payment to Auditors (refer note below) | **55,150** | 110,300 |
| Prior Period Items | **(346,833)** | 100,108 |
| Power & Fuel | **26,814** | 281,496 |
| Rent | **105,888** | 21,706,007 |
| Insurance | | 24,632 |
| Legal & Professional Exp. | **1,532,949** | 1,939,867 |
| Licence Fee | | 533,046 |
| Commission & Brokerage | **141,666** | 615,102 |
| Security Expenses | | 520,873 |
| Selling & Marketing expenses | **222,965** | 28,321,880 |
| Store Maintenance | | 1,226,348 |
| Provision for Doubtful Advances | **20,903,475** | 213,403 |
| Sundry Balances written back | **(441,464)** | (1,110,480) |
| Miscellaneous expenses | **44,510** | 3,341,214 |
| | **22,245,120** | 57,823,796 |
| **a) Payment to Auditors** | | |
| **As Auditor:** | | |
| Audit Fees | **50,000** | 75,000 |
| Tax Audit Fees | **–** | 25,000 |
| Service Tax | **5,150** | 10,300 |
| | **55,150** | 110,300 |
| **b) Expenditures in Foreign Currency** | | |
| Foreign Travelling | **–** | 107,176 |
| | **–** | 107,176 |
| **c) Prior Period Items** | | |
| Trade Discount | **(346,833)** | – |
| Selling Commission | **–** | 100,108 |
| | **(346,833)** | 100,108 |
| **Note 20 : Exceptional Items** | | |
| Disposals of items of fixed assets | **3,423,170** | 1,815,169 |
| Other reversals of provisions | **–** | (202,426) |
| | **3,423,170** | 1,612,743 |

**Note 21: Disclosure of Related parties/ Related parties transactions :**

**A Name of the Related Parties and description of relationship**

| Nature of Relationship | Concerns | Country of Incorporation |
|---|---|---|
| **Holding Company** | Pearl Global Industries Ltd. | India |
| **Fellow Subsidiaries** | Razamtazz Ltd. | Mauritius |
| | Norp Knit Industries Limited | Bangladesh |
| | House of Pearl Fashions (US) Limited | USA |
| | Multinational Textile Group Limited | Mauritius |
| | Global Textiles Group Limited | Mauritius |
| | Pacific Supply Chain Limited * | UK |
| | Zamira Fashions ( Europe) Limited * | UK |
| | Poeticgem (Canada) Limited | Canada |
| | Pacific Logistics Limited | UK |
| | FX Imports Company Limited | UK |
| | Magic Global Fashion Ltd * | UK |
| | Norwest Industries Limited | Hongkong |
| | Zamira Fashion Limited | Hongkong |
| | FX Import Hongkong Ltd | Hongkong |
| | PG Group Limited | Hongkong |
| | PG Home Group Limited | Hongkong |
| | Pearl Global Fareast Limited | Hongkong |
| | Simple Approach Limited | Hongkong |
| | Poeticgem Limited | UK |
| | PT Norwest Industry | Indonesia |
| | Pearl GES Home Group SPA | Chile |
| | Nor Delhi Manufactruing Limited | Hongkong |
| | Nor Lanka Manufactruing Limited (formerly as Poetic Hongkong) | Hongkong |
| | Poetic Knitwear Limited | UK |
| | Grand Pearl Trading Limited | China |
| | Spring Near East Manufacturing Co.Ltd. | Hongkong |
| | Nahata Limited | UK |
| | Propur Invest Ltd. | UK |
| | Casa Forma Ltd. | UK |
| | Nor Europe MFG CO.Ltd. | Hongkong |
| | Sino West MFG Co. Ltd. | Hongkong |
| | PS Sourcing ltd. | Hongkong |

| Nature of Relationship | Concerns | Country of Incorporation |
|---|---|---|
| **Associates** | Hopp Fashions | India |
| | Pearl Wears | India |
| | Vastras | India |
| | Little People Education Society | India |
| | Pearl Retail Solutions Pvt Ltd | India |
| | Deepak Seth & Sons (HUF) | India |
| | Pearl Apparels Limited | India |
| | Vau Apparels Pvt Ltd | India |
| | Nim International Commerce Pvt. Ltd. | India |
| | P S Arts Private Ltd. | India |
| | OVERSEAS | |
| | Pallas Holdings Limited | Mauritius |
| | SACB Holdings Limited | Dubai |
| | JSM Trading (FZE.) | Mauritius |
| | Lerros Moden GmbH | Germany |
| | Premier Fashion Garment Joint Stock Co. Ltd. | Vietnam |
| | Superb mind Holding Ltd. | Mauritius |
| | NASF | UK |
| | | |
| **Key Management Personnel** | Mrs. Payel Seth | |
| | Mr. Pulkit Seth | |

* Company's closure application filed during the year.

**B. Disclosure of Related Parties Transactions:**

**(i) Holding Company**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Share Application money received | **39,900,000** | 25,200,000 |
| Share Application money refunded | **5,010,668** | – |
| Transfer to Share Application money | **–** | – |
| Equity Share Capital allotted | **–** | 32,589,330 |
| Preference Share Capital redeemed | **39,900,000** | – |
| Preference Share Capital Issued | **60,000,000** | – |
| Services Provided | **105,888** | – |
| Expenses Reimbursed on behalf | **57,146** | – |
| Closing Balance as on 31st March 2012 | **57,146** | – |
| Share Application Received | **–** | 25,110,670 |
| Other Liabilities | **–** | – |

**(ii) Fellow Subsidiary**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Purchases of Goods | – | 1,233,111 |
| Expenses Reimbursed on behalf | – | 67,468 |
| Loan Received | – | 7,500,000 |
| Loan Repaid | – | 7,000,000 |
| Sale of Garments | – | – |
| Closing Balance as on 31st March 2012 | – | – |
| Other Liabilities | **2,346,198** | 2,346,198 |

**(iii) Associates**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Equity Share Capital allotted | – | 21,726,220 |
| Purchase of Goods | – | 574,496 |
| Services Received | – | 725,036 |
| Expenses Reimbursed on behalf | – | 102,485 |
| Refund of Security Paid | **720,000** | – |
| Closing Balance as on 31st March 2012 | – | – |
| Creditors | – | 483,879 |

**C. Disclosure of related parties having more than 10% interest in each transaction in the ordinary course of business**

**(i) Holding Company (Pearl Global Industries Limited)**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Share Application money received | **39,900,000** | 25,200,000 |
| Share Application money refunded | **5,010,668** | – |
| Transfer to Share Application money | – | – |
| Equity Share Capital allotted | – | 32,589,330 |
| Preference Share Capital allotted | **60,000,000** | – |
| Preference Share Capital redeemed | **39,900,000** | – |
| Advances given | – | – |
| Expenses reimbursed on behalf | **57,146** | |
| Services Provided | **105,888** | – |

**(ii) Fellow Subsidiary**

| Particulars | Current Year | Previous Year |
|---|---|---|
| **Purchases of Goods** | | |
| Pearl Global Limited | – | 1,233,111 |
| **Expenses Reimbursed on behalf** | | |
| Pearl Global Limited | – | 67,468 |
| Loan Received | | |
| Pearl Global Limited | – | 7,500,000 |
| **Loan Repaid** | | |
| Pearl Global Limited | – | 7,500,000 |

**(iii) Associates**

| Particulars | Current Year | Previous Year |
|---|---|---|
| **Purchase of Goods** | | |
| Lerros Moden Gmbh | – | 574,496 |
| **Services Received** | | |
| Pearl Academy of Fashions | – | 50,000 |
| Little People Education Society | – | 675,036 |
| **Expenses Reimbursed on behalf** | | |
| Little People Education Society | – | 102,485 |
| **Security Paid** | | |
| Little People Education Society | – | 720,000 |
| **Refund of Security Paid** | | |
| Little People Education Society | **720,000** | – |

**Note 22 : Leases**

**Assets taken on Lease**

The company has taken certain assets on cancellable operating lease and lease rent amounting to Rs. 1,05,888 (P.Y. Rs. 38,604,680/-) and has been debited to Profit & Loss account.

**Note 23 : Earnings per Share**

| Particulars | Current Year | Previous Year |
|---|---|---|
| Profit /(Loss) attributable to the equity shareholders | **(29,756,999)** | (70,897,017) |
| Basic/weighted average no. of equity shares outstanding during the period | **27,639,145** | 24,923,368 |
| Nominal value of Equity shares | **10** | 10 |
| Basic/Dilutive Earning per share (Rs.) | **(1.08)** | (2.84) |

**Note 24:** In view of the management, the current assets, loans and advances have a value on realization in the ordinary course of business at least equal to the amount, at which they are stated in the Balance Sheet as at March 31, 2012.

**Note 25:** The company has entered into a Brand Licensing Agreement with Numero Uno Clothing Limited (NUCL) to grant an exclusive and non-transferable right and license to use the Lerros Marks and goodwill associated thereto solely for a period of 5 years for the purposes of manufacturing and procurement of Lerros Merchandise and to establish and operate Lerros Boutiques in India from 1st August 2010. However, during the year, NUCL has terminated such License Agreement pending settlement of its dues to the company. However, the dispute has been referred to the Arbitration for recovery of outstanding as on the date of such termiantion and the liquidated damages. (Refer Note 14)

Accordingly, the company has recognized the Royalty Income, as per the terms of the agreement, up to date of termination on accrual basis.

**Note 26:** There is no reportable segment of the Company in view of the Accounting Standard-17 "Segment Reporting" as issued by the Companies (Accounting Standard) Rules, 2006.

For & on behalf of Board of Directors

**(PULKIT SETH)**
Director
DIN 00003044

**(PAYEL SETH)**
Director
DIN 00003035

Place : New Delhi
Dated : 30th May, 2012

## DIRECTORS' REPORT

To the Shareholders,

The Directors of your Company present the First Annual Report and Audited Accounts for the period from 11th May, 2011 to 31st March, 2012, together with the Auditors' Report thereon.

**OPERATIONS**

During the year under review, your Company has not commenced its business activities and consequently suffered Loss of Rs. 126,740

**DIVIDEND**

Directors of your Company have not recommended any dividend for the year under report.

**DIRECTORS**

Mr. Deepak Seth, Mrs. Payel Seth and Mr. Pallak Seth are Directors of your Company.

In accordance with the provisions of the Companies Act, 1956, and the Articles of Association of your Company, Mr. Deepak Seth, would retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. Necessary resolutions for their re-appointment are included in the notice convening Annual General Meeting.

**DIRECTORS RESPONSIBILITY STATEMENT**

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, it is hereby confirmed:

i) That in the preparation of the accounts for the financial year ended 31st March 2012, the applicable accounting standards issued by the Institute of Chartered Accountants of India have been followed. There are no material departures from prescribed accounting standards in the adoption of the accounting standards.

ii) That the Directors have adopted such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the company for the year under review.

iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv) That the Directors have prepared the accounts for the financial year ended 31st March 2012 as a "going concern" and on accrual basis.

**AUDITORS**

The Auditors of your Company, M/s S. R. Dinodia & Co., Chartered Accountants (Regn. No. 001478N), New Delhi, will retire at the conclusion of the ensuing first Annual General Meeting and being eligible, offer themselves for re-appointment.

**FIXED DEPOSITS**

Your Company has not accepted any Fixed Deposits from Public or Shareholders.

**NOTES TO ACCOUNTS**

The observations of the Auditors, if any, have been adequately explained in Notes to Accounts and need no further clarification.

**PARTICULARS OF EMPLOYEES**

The information required in terms of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is NIL

**STATUTORY DISCLOSURES**

Details of Conservation of Energy and Technology Absorption

Information pursuant to Section 217 (1)(e) of the Companies Act, 1956, read with Rule 2 of the Companies (Disclosures of Particulars in the Report of the Board of Directors) Rules, 1988 relating to "Energy Conservation" and "Technology Absorption" are not applicable as the Company does not have any manufacturing activity.

**Foreign Exchange Earnings and Outgo**

There is no Foreign Exchange Earnings and outgo during the year. Further, the Company has no export plan in near future.

**ACKNOWLEDGEMENT**

The Directors of your Company are thankful to Bankers and Business Associates for the continuous support received from them and place on record their appreciation for the sincere services rendered by the employees at all level.

for and On Behalf of the Board
**for PDS MULTINATIONAL FASHIONS LIMITED**

| | | |
|---|---|---|
| Place: New Delhi | **(PAYEL SETH)** | **(DEEPAK SETH)** |
| Date: 30th May, 2012 | DIRECTOR | DIRECTOR |

## AUDITORS' REPORT

To the Share Holders of **M/S PDS MULTINATIONAL FASHIONS LIMITED**

We have audited the attached Balance sheet of M/S PDS MULTINATIONAL FASHIONS LIMITED as at 31st March, 2012, Statement of Profit & Loss Account and also the cash flow statement for period ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 [as amended by the Companies (Auditor's Report) (Amendment) Order 2004] issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the annexure referred to above, we report that:

a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.

b) In our opinion proper books of account as required by law have been kept by the company so far as appears from our examination of those books.

c) The Company's Balance sheet, Statement of Profit & Loss Account and cash flow statement dealt with by this report are in agreement with the books of account.

d) In our opinion, the Balance Sheet, Statement of Profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub section (3C) of Section 211 of the Companies Act, 1956.

e) On the basis of written representations received from the directors as on 31st March, 2012 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2012 from being appointed as director in term of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

   i) in the case of the Balance Sheet of the state of affairs of the Company as at **31st March, 2012**;

   ii) in the case of the Statement of Profit & Loss Account, of the Loss for the period ended on that date;

   iii) in the case of the cash flow statement, of the cash flows for the period ended on that date.

For **S.R. DINODIA & CO.,**
CHARTERED ACCOUNTANTS
Regn. No. 001478N

**(SANDEEP DINODIA)**
PARTNER
M. NO. 083689

Place: New Delhi
Dated: 30th May, 2012

## ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our audit report of even date)

**RE: M/s. PDS Multinational Fashions India Ltd.**

i) The company does not have any asset during the period. Therefore, the provisions of clause 4 (i) (a) to (c) of the Companies (Auditor's Report) Order, 2003 are not applicable.

ii) The company does not hold any inventory during the period. Therefore, the provisions of clause 4 (ii) (a) to (c) of the Companies (Auditor's Report) Order, 2003 are not applicable

iii) During the period company has neither granted nor taken any loans, secured or unsecured to/ from the parties covered in the register maintained u/s 301 of the Companies Act 1956. Therefore, the provisions of clause 4(iii) of the Companies (Auditor's Report) Order, 2003 are not applicable.

iv) In our opinion and according to the information and explanations given to us, there is adequate internal control procedure commensurate with the size of the company and the nature of its business with regard to the purchase of inventory, fixed assets and for the sales of goods. Further, on the basis of our examination of the books and records of the company carried out in accordance with the generally accepted auditing practices, there is no continuing failure to correct the weaknesses in the aforesaid internal control systems.

v) a. Based on the audit procedures applied by us and according to the information and explanations given to us, we are of opinion that the transactions that need to be entered into a register maintained under section 301 of the Companies Act, 1956 are being so entered.

b. In our opinion and according to explanation given to us, the transactions made in pursuance of contracts and arrangements entered in the register maintained u/s 301 of the Companies Act, 1956 and exceeding values of Rs.5 Lacs in respect of any party during the period have been made at prices which are reasonable having regard to the prevailing market prices at the relevant times.

vi) In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits within the meaning of section 58A and 58AA of the Companies Act, 1956 and rules framed there under.

vii) In our opinion, the company has an internal audit system which is commensurate with the nature and size of the business.

viii) The Central Government has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act 1956. Therefore provision of this clause is not applicable to the company.

ix) a. According to the information and explanation given to us, the company is generally regular in depositing with appropriate authorities undisputed applicable statutory dues including income tax, wealth tax and other statutory dues as applicable to it.

b. According to the records of the Company examined by us and on the basis of the information and explanations provided, there is no amount outstanding in respect of income tax, wealth tax and other statutory dues on account of any dispute as at 31st March, 2012.

x) Being the first year of operation after the incorporation of the company, provision of this clause is not applicable. The company has incurred cash loss during the period.

xi) Based on our audit procedure and on the basis of information and explanations given to us by the management, company has not taken any loan from the financial institutions. Therefore, the provisions of clause 4(xi) of the Companies (Auditor's Report) Order, 2003 are not applicable.

xii) The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Therefore, the provisions of clause 4(xii) of the Companies (Auditor's Report) Order, 2003 are not applicable.

xiii) In our opinion, the company is not a chit fund or nidhi/ mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditors Report) Order, 2003 are not applicable to the company.

xiv) The Company is not dealing or trading in shares, securities, debentures and other investments. Therefore, the provisions of clause 4(xiv) of the Companies (Auditors Report) Order, 2003 are not applicable to the company.

xv) In our opinion and on the basis of information and explanation provided, the company has not given any guarantees for loans taken by others from banks or financial institutions.

xvi) On the basis of information and explanation given to us, no term loans were raised during the period by the company.

xvii) On the basis of information and explanation given to us and overall examination of the balance sheet as at 31st March 2012, we report that no funds have been raised on short term basis which have been used for long term investments.

xviii) During the period, the company has not allotted any shares on preferential basis to parties and companies covered in the register maintained under section 301 of the Companies Act, 1956.

xix) During the period covered by our audit report, the company has not issued any debentures during the period. Therefore, the provisions of clause 4(xix) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company

xx) According to the information and explanation given to us, the company has not raised any money by way of public issue during the period. Therefore, the provisions of clause 4(xx) of the Companies (Auditor's Report) Order 2003 are not applicable to the company.

xxi) During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India and according to the information and explanation given to us during the period, we have neither come across any instance of fraud on or by the Company, noticed or reported nor have we been informed of such case by the management.

FOR **S.R. DINODIA & CO.,**
CHARTERED ACCOUNTANTS,
Regn No.001478N

**(SANDEEP DINODIA)**
PARTNER
M. No. : 083689

Place: New Delhi
Dated: 30th May, 2012

## BALANCE SHEET AS AT MARCH 31, 2012

(Amount in Rs.)

| PARTICULARS | Note No. | As At March 31, 2012 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share Capital | 3 | 500,000 |
| Reserves and surplus | 4 | (126,740) |
| **Current liabilities** | | |
| Other current liabilities | 5 | 126,740 |
| | | 500,000 |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and Bank Balances | 6 | 500,000 |
| | | 500,000 |
| Summary of Significant Accounting Policies | 2.3 | |

The accompanying notes are an integral part of the financial statements

As per our report of even date attached
For **S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 001478N
**(SANDEEP DINODIA)**
Partner
M. NO. 083689
Place : New Delhi
Dated: 30th May, 2012

**For & on behalf of Board of Directors**

**(DEEPAK SETH)**
Director
DIN 00003021

**(PAYEL SETH)**
Director
DIN No.00003035

## PROFIT AND LOSS FOR THE PERIOD ENDED MARCH 31, 2012

| | Note No. | For the period ended March 31, 2012 |
|---|---|---|
| **INCOME** | | |
| Operating Income | | – |
| | | – |
| **EXPENDITURE** | | |
| Preliminary Expenses w/off | | 115,710 |
| Audit fee | | 11,030 |
| | | 126,740 |
| **Net Profit/(Loss) for the Year** | | (126,740) |
| Provision for Tax | | – |
| **Profit (Loss) after Taxation** | | (126,740) |
| **Balance Carried to Balance Sheet** | | (126,740) |
| **Earnings per equity share:** | 8 | |
| Basic | | (2.53) |
| Diluted | | (2.53) |
| Summary of Significant Accounting Policies | 2.3 | |

The accompanying notes are an integral part of the financial statements

As per our report of even date attached
For **S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 001478N

**(SANDEEP DINODIA)**
Partner
M. NO. 083689
Place : New Delhi
Dated: 30th May, 2012

**For & on behalf of Board of Directors**

**(DEEPAK SETH)**
Director
DIN 00003021

**(PAYEL SETH)**
Director
DIN No.00003035

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2012

(Amount in Rs.)

| | | For the period ended March 31, 2012 |
|---|---|---|
| **A.** | **Net Profit Before Tax and Exceptional Items** | (126,740) |
| | **Operating Profit /(loss) before working capital changes** | (126,740) |
| | Adjustments for : | |
| | Loans & Advances | 126,740 |
| | **Net Cash Generated / (used) in operating Activties** | – |
| **B.** | **Cash Flow from Financing Activities** | |
| | Net Proceeds from issue of Share Capital | 500,000 |
| | **Net cash Generated /(used) in financing activities** | 500,000 |
| | **Net Increase in Cash/Cash equivalents (A+B)** | 500,000 |
| | **Cash / Cash equivalents at the beginning of the year** | – |
| | **Cash / Cash equivalents at the close of the year** | 500,000 |
| | **Components of Cash and Cash equivalents** | |
| | Balances with Scheduled Banks | |
| | i) In Current Accounts | 500,000 |
| | | 500,000 |

Summary of Significant Accounting Policies 2.3

The accompanying notes are an integral part of the financial statements

As per our report of even date attached
For **S.R. DINODIA & CO.,**
Chartered Accountants
Regn. No. 001478N
**(SANDEEP DINODIA)**
Partner
M. NO. 083689
Place : New Delhi
Dated: 30th May, 2012

**For & on behalf of Board of Directors**

**(DEEPAK SETH)**
Director
DIN 00003021

**(PAYEL SETH)**
Director
DIN No.00003035

## Notes to financial statements for the period ended March 31, 2012

**Note 1**

**Corporate Information**

PDS Multinational Fashions Limited is a limited company domiciled in India and incorporated on April 06, 2011 under the provisions of the Companies Act,1956. The company is primarily engaged in export of ready to wear apparels through its operation in India and sourcing overseas.

**Note 2**

**2.1 Basis of Preparation**

The financial statements have been prepared to comply with the mandatory Accounting Standards and the relevant provisions of the Companies Act, 1956 under the historical cost convention and on accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The accounting policies have been consistently applied by the company unless otherwise stated.

**2.2 Uses of Estimates**

The preparation of financial statements is in conformity with generally accepted accounting principles which requires making of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets & liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting year. Differences between the actual results and estimates are recognized in the year in which the results are known / materialized.

**2.3 Summary of Significant Accounting Policies**

**a. Change in Accounting Policy**

**Presentation and disclosure of financial statements**

During the financial year ended March 31, 2012, the revised Schedule VI notified under the Companies Act 1956, has become applicable to the company for preparation and presentation of its financial statements. The company has adopted revised Schedule VI in preparation of first year of financial statements. Consequently, no previous year's figures are stated.

b. **Cash Flow Statement**

Cash flows are reported using the indirect method as specified in Accounting Standard (AS-3) Cash Flow Statement.

c. **Revenue/Expenditure Recognition**

i) Revenue/expenditure is recognized on accrual basis.

(Amount in Rupees)

| | As At March 31, 2012 |
|---|---|
| **Note 3 : Share Capital** | |
| Authorised share Capital | |
| 500,000 Equity Shares of Rs. 10/- each | **5,000,000** |
| | **5,000,000** |
| **Issued, Subscribed & Paid-up Shares** | |
| **Equity Share Capital** | |
| Paid up Equity Share Capital 50,000 @ 10/- Each) | **500,000** |
| | **500,000** |

**Reconciliation Statement of Share Capital (in Nos. of Shares)**

**(a) Equity Shares**

| | | |
|---|---|---|
| (i) Balance of Shares at the beginning of year | – | – |
| (ii) Add:- addition during the year | 50,000 | – |
| (iii) Less:- Buy Back during the year | – | – |
| (iv) Balance of Shares at the end of the year | 50,000 | – |

**Details of shares in the company held by each shareholder holding more than 5 percent shares specifying the number of shares held;**

| | March 31, 2012 | |
|---|---|---|
| | **No. of shares** | **% holding** |
| Pearl Global Industries Limited (Formerly House of Pearl Fashions Limited) | 50,000 | 100% |

| | |
|---|---|
| **NOTE 4 : RESERVES AND SURPLUS** | |
| Profit & Loss Account | |
| Balances at the beginning of year | – |
| Add:- Profit/(Loss) during the year | (126,740) |
| Less:- Utilise during the year | – |
| Balances at the close of year | **(126,740)** |
| **NOTE 5 : OTHER CURRENT LIABILITIES** | |
| **Others** | |
| Audit fee payable | 11,030 |
| Amount due to Related Party | |
| Pearl Global Industries Limited ((Formerly House of Pearl Fashions Ltd.) | 115,710 |
| | **126,740** |
| **NOTE 6 : CASH AND BANK BALANCES** | |
| **Bank Balance** | |
| In current Account | 500,000 |
| | **500,000** |

**Note 7: Disclosure of Related parties/ Related parties transactions :**

**A Name of the Related Parties and description of relationship**

| Nature of Relationship | Concerns | Country of Incorporation |
|---|---|---|
| Holding Company | Pearl Global Industries Ltd. | India |
| Fellow Subsidiaries | Razamtazz Ltd. | Mauritius |
| | Norp Knit Industries Limited | Bangladesh |
| | House of Pearl Fashions (US) Limited | USA |
| | Multinational Textile Group Limited | Mauritius |
| | Global Textiles Group Limited | Mauritius |
| | Pacific Supply Chain Limited * | UK |
| | Zamira Fashions ( Europe) Limited * | UK |
| | Poeticgem(Canada) Limited | Canada |
| | Pacific Logistics Limited | UK |
| | FX Imports Company Limited | UK |
| | Magic Global Fashion Ltd * | UK |
| | Norwest Industries Limited | Hongkong |
| | Zamira Fashion Limited | Hongkong |
| | FX Import Hongkong Ltd | Hongkong |
| | PG Group Limited | Hongkong |
| | PG Home Group Limited | Hongkong |
| | Pearl Global Fareast Limited | Hongkong |
| | Simple Approach Limited | Hongkong |
| | Poeticgem Limited | UK |
| | PT Norwest Industry | Indonesia |
| | Pearl GES Home Group SPA | Chile |
| | Nor Delhi Manufactruing Limited | Hongkong |
| | Nor Lanka Manufactruing Limited (formerly as Poetic Hongkong) | Hongkong |
| | Poetic Knitwear Limited | UK |
| | Grand Pearl Trading Limited | China |
| | Spring Near East Manufacturing Co.Ltd. | Hongkong |
| | Nahata Limited | UK |
| | Propur Invest Ltd. | UK |
| | Casa Forma Ltd. | UK |
| | Nor Europe MFG CO.Ltd. | Hongkong |
| | Sino West MFG Co. Ltd. | Hongkong |
| | PS Sourcing ltd. | Hongkong |
| | Lerros Fashions India Ltd. | India |

| Nature of Relationship | Concerns | Country of Incorporation |
|---|---|---|
| Associates | Hopp Fashions | India |
| | Pearl Wears | India |
| | Vastras | India |
| | Little People Education Society | India |
| | Pearl Retail Solutions Pvt Ltd | India |
| | Deepak Seth & Sons (HUF) | India |
| | Pearl Apparels Limited | India |
| | Vau Apparels Pvt Ltd | India |
| | Nim International Commerce Pvt. Ltd. | India |
| | P S Arts Private Ltd. | India |
| | **OVERSEAS** | |
| | Pallas Holdings Limited | Mauritius |
| | SACB Holdings Limited | Dubai |
| | JSM Trading (FZE.) | Mauritius |
| | Lerros Moden GmbH | Germany |
| | Premier Fashion Garment Joint Stock Co. Ltd. | Vietnam |
| | Superb mind Holding Ltd. | Mauritius |
| | NASF Ltd. | UK |

| | | |
|---|---|---|
| **Key Management Personnel** | Mr. Deepak Seth | |
| | Mrs. Payel Seth | |

* Company's closure application filed during the year.

**B. Disclosure of Related Parties Transactions:**

**(i) Holding Company**

| Particulars | Current Period |
|---|---|
| Equity Share Capital allotted | **500,000** |
| Expenses Reimbursed on behalf | **115,710** |
| Closing Balance as on 31st March 2012 | **115,710** |

C. Disclosure of related parties having more than 10% interest in each transaction in the ordinary course of business

**(i) Holding Company (Pearl Global Industries Limited)**

| Particulars | Current Period |
|---|---|
| Equity Share Capital allotted | **500,000** |
| Expenses Reimbursed on behalf | **115,710** |

**Note 8 : Earnings per Share**

| Particulars | Current Period |
|---|---|
| Profit /(Loss) attributable to the equity shareholders | **(126,740)** |
| Basic/weighted average no. of equity shares outstanding during the period | **50,000** |
| Nominal value of Equity shares | **10** |
| Basic/Dilutive Earning per share (Rs.) | **(2.53)** |

**Note 9:** In view of the management, the current assets have a value on realization in the ordinary course of business at least equal to the amount, at which they are stated in the Balance Sheet as at March 31, 2012.

**Note 10:** There is no reportable segment of the Company in view of the Accounting Standard-17 "Segment Reporting" as issued by the Companies (Accounting Standard) Rules, 2006.

**Note 11:** The financial statement has been made for the period 6th April to March, 2012. Being the first year, corresponding previous year figures have not been stated.

**For & on behalf of Board of Directors**

**(DEEPAK SETH)**
Director
DIN 00003021

**(PAYEL SETH)**
Director
DIN No.00003035

Place : New Delhi
Dated: 30th May, 2012

## DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended March 31, 2012, which were approved by them at the board meeting held on the date of this report.

**PRINCIPAL ACTIVITY**

The principal activity of the Company is investment holding. The principal activity of subsidiary is set out in Note (14) to the financial statements.

**FINANCIAL RESULTS**

The results of the Group for the year ended March 31, 2012 and the state of affairs of the Group and the Company at that date are set out in the annexed financial statements.

**DIVIDEND**

The directors do not recommend any payments of dividend for the year.

**PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment are set out in Note (12) to the financial statements.

**DIRECTORS**

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

Deepak Kumar Seth

Pulkit Seth

There being no provision in the Company's Articles of Association to the contrary, all directors continue in office for the ensuing year.

**DIRECTORS' INTEREST**

Except for the related party transactions as disclosed in Note (25) to the financial statements, no contracts of significance to which the Company, any of its ultimate holding company, its subsidiary or its fellow subsidiaries was a party and in which the director had a material interest subsisted at the end of the year or at any time during the year. At no time during the year was the Company, any of its ultimate holding company, its subsidiary or its fellow subsidiaries a party to any arrangements to enable the director of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or other body corporate.

**AUDITORS**

The Company's auditors, Messrs. Louis Lai & Luk, retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Sd/-
Chairman

Hong Kong, May 22, 2012.

## INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF PEARL GLOBAL (HK) LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the accompanying consolidated financial statements of Pear! Global (HK) Limited (the "Company") and its subsidiary (collectively the "Group") set out on pages 5 to 30, which comprise the consolidated statement of financial position as at March 31, 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Louis Lai & Luk
Certified Public Accountants

Hong Kong, May 22, 2012.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31, 2012

| | Notes | **1/4/2011-31/3/2012 US$** | 22/12/2009-31/3/2011 US$ |
|---|---|---|---|
| Turnover | (6) | **21,831,903** | – |
| Other revenue | (6) | **398,127** | – |
| Cost of goods sold | | **(18,687,204)** | – |
| Staff costs | | **(1,649,131)** | – |
| Depreciation | | **(148,209)** | – |
| Other operating expenses | | **(1,296,172)** | (3,965) |
| Profit/(loss) from operation | | **449,314** | (3,965) |
| Finance costs | (7) | **(340,359)** | – |
| Excess of share of acquired assets over the purchase consideration of a subsidiary | (24) | **2,457,935** | – |
| Share of results of an associate | | **(45,015)** | – |
| Profit/(loss) before taxation | (8) | **2,521,875** | (3,965) |
| Taxation | (10) | **(352,504)** | – |
| Profit/(loss) for the year/period | | **2,169,371** | (3,965) |
| Other comprehensive income | | **–** | – |
| Total comprehensive income/(expense) for the year/period | | **2,169,371** | (3,965) |
| Profit/(loss) attributable to: | | | |
| Equity holders of the Company | (11) | **2,168,945** | (3,965) |
| Non-controlling interests | | **426** | – |
| | | **2,169,371** | (3,965) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2012

| | Notes | **2012 US$** | 2011 US$ |
|---|---|---|---|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | (12) | **832,705** | – |
| Deposits | | **61,475** | – |
| Deferred tax assets | (10) | **173,780** | – |
| Interest in an associate | (13) | **3,559,406** | – |
| | | **4,627,366** | – |

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| Current Assets | | | |
| Inventories | (15) | **921,234** | – |
| Prepayments | | **343,478** | – |
| Trade deposit paid | | **926,436** | – |
| Trade and other receivables | (16) | **2,460,699** | – |
| Amount due from ultimate holding company | (17) | **–** | 10,000 |
| Amount due from a fellow subsidiary | (17) | **400,000** | – |
| Bank and cash balances | | **802,916** | – |
| | | **5,854,763** | 10,000 |
| Current Liabilities | | | |
| Amounts due to fellow subsidiaries | (18) | **1,162,568** | 3,194 |
| Amount due to ultimate holding company | (18) | **4,275,202** | – |
| Amount due to a director | (18) | **426** | – |
| Trade payables | (19) | **893,496** | – |
| Accruals and other payables | | **458,290** | 771 |
| Provision for taxation | | **57,297** | – |
| Secured bank borrowings | (20) | **1,284,525** | – |
| | | **8,131,804** | 3,965 |
| Net Current (Liabilities)/Assets | | **(2,277,041)** | 6,035 |
| Total Assets less Current Liabilities | | **2,350,325** | 6,035 |
| Non-Current Liabilities | | | |
| Employee benefits obligation | (21) | **170,119** | – |
| NET ASSETS | | **2,180,206** | 6,035 |
| Represented by: | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | (22) | 10,000 | 10,000 |
| Retained profits/(Accumulated losses) | | 2,164,980 | (3,965) |
| Total equity attributable to equity holders of the company | | 2,174,980 | 6,035 |
| Non-controlling interests | | 5,226 | – |
| SHAREHOLDERS' EQUITY | | 2,180,206 | 6,035 |

APPROVED BY THE BOARD OF DIRECTORS ON MAY 22, 2012 AND SIGNED ON BEHALF OF THE BOARD BY:

Sd/- DIRECTOR

Sd/- DIRECTOR

## STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| ASSETS | | | |
| Non-Current Assets | | | |
| Interest in an associate | (13) | **3,559,406** | – |
| Interest in a subsidiary | (14) | **1,541,412** | – |
| | | **5,100,818** | – |
| Current Assets | | | |
| Amount due from ultimate holding company | (17) | **–** | 10,000 |
| Bank and cash balances | | **137,143** | – |
| | | **137,143** | 10,000 |
| Current Liabilities | | | |
| Amounts due to fellow subsidiaries | (18) | **1,162,568** | 3,194 |
| Amount due to ultimate holding company | (18) | **4,275,750** | – |
| Amount due to a director | (18) | **426** | – |
| Accruals | | **2,314** | 771 |
| | | **5,441,058** | 3,965 |
| Net Current (Liabilities)/Assets | | **(5,303,915)** | 6,035 |
| NET (LIABILITIES)/ASSETS | | **( 203,097)** | 6,035 |
| Represented by: | | | |
| CAPITAL AND RESERVES | | | |
| Share capital | (22) | **10,000** | **10,000** |
| Accumulated losses | (23) | **( 213,097)** | ( 3,965) |
| SHAREHOLDERS' (DEFICIT)/EQUITY | | **( 203,097)** | 6,035 |

APPROVED BY THE BOARD OF DIRECTORS ON MAY 22, 2012 AND SIGNED ON BEHALF OF THE BOARD BY:

Sd/- DIRECTOR

Sd/- DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED MARCH 31, 2012

| | Share Capital US$ | (Accumulated Losses)/ Retained Profits US$ | Non-controlling Interest US$ | Total US$ |
|---|---|---|---|---|
| Issuance of share capital | 10,000 | – | – | 10,000 |
| Total comprehensive expenses for the period | – | (3,965) | – | (3,965) |
| At March 31, 2011 and April 1, 2011 | 10,000 | (3,965) | – | 6,035 |
| Acquisition of non-controlling interests in a subsidiary | – | – | 5,333 | 5,333 |
| Dividends to non-controlling shareholders | – | – | (533) | (533) |
| Total comprehensive income for the year | – | 2,168,945 | 426 | 2,169,371 |
| At March 31, 2012 | 10,000 | 2,164,980 | 5,226 | 2,180,206 |

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2012

| | Notes | 1/4/2011-31/3/2012 US$ | 22/12/2009-31/3/2011 US$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(Loss) before taxation | | **2,521,875** | (3,965) |
| Adjustments for: | | | |
| Bank interest income | | **(1,081)** | – |
| Interest expenses | | **340,359** | – |
| Depreciation | | **384,405** | – |
| Share of results of an associate | | **45,015** | – |
| Excess of share acquired assets over the purchase consideration of a subsidiary | | **(2,457,935)** | – |
| **OPERATING PROFIT/(LOSS) BEFORE WORKING CAPITAL CHANGES** | | **832,638** | (3,965) |
| Decrease in trade and other receivables | | **604,893** | – |
| Decrease in inventories | | **1,025,241** | – |
| Increase in prepayments | | **(108,051)** | – |
| Decrease in other current assets | | **17,138** | – |
| Increase in trade payables | | **184,114** | – |
| Increase in accruals and other payables | | **2,371** | 771 |

| | Notes | 1/4/2011-31/3/2012 US$ | 22/12/2009-31/3/2011 US$ |
|---|---|---|---|
| Increase in trade deposit paid | | (60,726) | – |
| Decrease in receipt in advance | | (15,333) | – |
| Net receipts from/(payments to) ultimate holding company | | 4,285,202 | (10,000) |
| Net payments to an associate | | (750,000) | – |
| Net receipts from fellow subsidiaries | | 587,110 | 3,194 |
| Net receipts from a director | | 426 | – |
| **NET CASH GENERATED FROM/(USED IN) OPERATIONS** | | 6,605,023 | (10,000) |
| Bank interest received | | 1,081 | – |
| Interest paid | | (340,359) | – |
| Income tax paid | | (232,206) | – |
| Net cash generated from/(used in) operating activities | | 6,033,539 | (10,000) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Issuance of share capital | | – | 10,000 |
| Payment to acquire property, plant and equipment | | ( 165,129) | – |
| Increase in deposits | | 9,232 | – |
| Increase in employee benefits obligation | | 53,531 | – |
| Acquisition of interest in an associate | | (2,854,421 ) | – |
| Net cash outflow for acquisition of a subsidiary | (24) | (1,032,333) | – |
| Net cash (used in)/generated from investing activities | | (3,989,120) | 10,000 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net repayments of secured bank borrowings | | (1,240,970) | – |
| Dividend paid to non-controlling interests shareholders | | (533) | – |
| Net cash used in financing activities | | (1,241,503) | – |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | 802,916 | – |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD** | | – | – |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR/ PERIOD** | | 802,916 | – |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL

Pearl Global (HK) Limited was incorporated in Hong Kong as a limited liability company. Its principal activity is investment holding. The address of its registered office is 7/F., Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong. The directors consider that the ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India. The shares of the ultimate holding company is listed on the Bombay Stock Exchange and National Stock Exchange in India.

### 2. PRINCIPAL ACCOUNTING POLICIES

a. Basis of Preparation

These consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS(s)") (which also include Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("Int(s)")) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note (5) to the financial statements.

In 2012, the Group adopted the new and revised HKFRSs below, which are relevant to its operations.

- HKFRSs (Amendments) — Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
- HKFRS 1 (Amendments) — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
- HKAS 24 (Revised) — Related Party Disclosures
- HK(IFRIC) - Int 14 (Amendments) — Prepayments of a Minimum Funding Requirement
- HK(IFRIC) - Int 19 — Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above HKFRSs has had no material impact on the principal accounting policies of the Group and the methods of computation in the Group's financial statements. As such, no 2011 comparatives have been amended as a result from adopting the captioned HKFRSs.

b. Impact of issued but not yet effective HKFRSs

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

- HKFRS 1 (Amendments) — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
- HKFRS 7 (Amendments) — Disclosures - Transfers of Financial Assets [1]
- HKFRS 7 (Amendments) — Disclosures - Offsetting Financial Assets and Financial Liabilities [4]
- HKFRS 9 — Financial Instruments [6]
- HKFRS 10 — Consolidated Financial Statements [4]
- HKFRS 11 — Joint Arrangements [4]
- HKFRS 12 — Disclosure of Interests in Other Entities [4]
- HKFRS 13 — Fair Value Measurement [4]
- HKAS 1 (Amendments) — Presentation of Items of Other Comprehensive Income [3]
- HKAS 12 (Amendments) — Deferred Tax: Recovery of Underlying Assets [2]
- HKAS 19 (2011) — Employee Benefits [4]
- HKAS 27 (2011) — Separate Financial Statements [4]
- HKAS 28 (2011) — Investments in Associates and Joint Ventures [4]
- HKAS 32 (Amendments) — Offsetting Financial Assets and Financial Liabilities [5]
- HK(IFRIC) - Int 20 — Stripping Costs in the Production Phase of a Surface Mine [4]

Notes:

(1) Effective for annual periods beginning on or after 1 July 2011

(2) Effective for annual periods beginning on or after 1 January 2012

(3) Effective for annual periods beginning on or after 1 July 2012

(4) Effective for annual periods beginning on or after 1 January 2013

(5) Effective for annual periods beginning on or after 1 January 2014

(6) Effective for annual periods beginning on or after 1 January 2015

The directors anticipate that all of the above new and revised standards, amendments or interpretations will be adopted in the Group's financial statements for the period commencing April 1, 2012 and that the adoption of those new and revised standards, amendments or interpretations will have no material impact on the financial statements of the Group.

c. Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Internal transactions are eliminated on consolidation and all figures in the consolidated financial statements relate to external transactions only.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries in the Company's Statement of Financial Position are stated at cost, being the fair value of consideration given plus related acquisition costs, less any aggregate identified impairment loss.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective dates of acquisition or up to the effective date of disposal according to proportional consolidation method.

d. Associates

An associate is an enterprise, not being a subsidiary nor a jointly controlled entity, over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate. The Group discontinues recognising its share of further losses. In the consolidated statement of financial position, interests in associates are stated at the Group's share of net assets of the associates plus goodwill arising on acquisitions taking into effect the policy on goodwill.

e. Property, Plant and Equipment

Property, plant and equipment except land, are stated at cost less aggregate depreciation and aggregate identified impairment loss, if any.

Depreciation is provided to write off the cost less residual value of property, plant and equipment over its expected useful lives.

| | |
|---|---|
| Infrastructures | 5 years |
| Furniture and fixtures | 5 years |
| Machineries | 5 years |
| Motor vehicles | 5 years |
| Tools and equipment | 3 - 5 years |

Land titles represent usage rights of Taman Pasadenia Apartment at Jakarta ("Hak Milik atas Satuan Rumah Susun") for a maximum period of 20 years and could be extended.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the Consolidated Statement of Comprehensive Income.

When assets are sold or otherwise disposed of, their carrying amounts are written off from the consolidated financial statements and any resulting gain or loss is included in the Consolidated Statement of Comprehensive Income.

f. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

g. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

h. Financial Assets

The Group's financial assets are only classified under loans and receivables category.

i. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are carried at amortized cost using effective interest method, less any identified impairment losses. An impairment loss is recognised in the Consolidated Statement of Comprehensive Income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the assets recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

j. Financial Liabilities

The Group's financial liabilities include account and other payables which are subsequently measured at amortized cost, using the effective interest method.

k. Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's equity instrument represents its issued share capital and is recorded at the share subscription received/receivable at the date of issuance of shares.

l. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method.

m. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months.

n. Translation of Foreign Currency

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States Dollars ("US$"), which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

o. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of specific assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income.

p. Turnover

Turnover represents invoiced amount of sales less discounts and returns.

q. Recognition of Revenue

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 bases as follows:

- Revenue from sales of goods is recognised when goods are delivered to buyers.
- Interest income from bank deposit is accrued on a time proportion basis on the principal outstanding and at the rate applicable.
- Other income is recognised on a receipt basis.

r. Borrowing Costs

Interest and other borrowing costs incurred in connection with the borrowing of funds are recognised as expenses in the period in which they are incurred.

s. Bank Borrowings

Interest bearing bank loans and overdrafts are initially measured as fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs, if any) and the settlement or redemption of borrowings is recognised over the terms of borrowings in accordance with the Group's policy for borrowing cost as stated in the preceding note.

t. Employee Benefits Obligation

Short-term employee benefits are recognised at a discounted amount when an employee has rendered service to the Group during an accounting period. Liabilities and expenses are measured using actuarial techniques which include constructive obligation that arises from the Group's informal practices. In calculating the liabilities, benefits should be discounted by using projected unit credit method.

Termination benefits are recognised when, and only when, the Group is demonstrably committed to either:

a. terminate an employee or group of employees before the normal retirement date; or

b. provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

u. Related Parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or a parent of the Group.

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

v. Financial Risks

The financial risks in connection with the Group's financial instruments include risks as follows.

(i) Market risk includes three types of risk as below:

- Currency risk: the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Fair value interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.
- Price risk: the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Market risk embodies not only the potential for loss but also the potential for gain.

(ii) Credit risk: the risk that the corresponding party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

(iii) Liquidity risk (also referred to as funding risk): the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

(iv) Cash flow interest rate risk: the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**3. CAPITAL MANAGEMENT**

The Group's objectives when managing capital are:

(i) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(ii) To support the Group's stability and growth; and

(iii) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

**4. FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks; foreign exchange risk, credit risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

– Foreign exchange risk: the Group exposed to foreign exchange risk from various currency exposures primarily Indonesian Rupiah. The Group has not hedged its exposure to foreign currency risk in connection with the recording currency except for salaries payment, factory overhead and material purchase.

– Credit risk: the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any customers.

– Interest rate risk: the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets.

**5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimate of fair value of current assets and liabilities

The nominal value of current assets and liabilities are assumed to approximate their fair value.

**6. RECOGNITION OF REVENUE GROUP**

| | GROUP | |
|---|---|---|
| | **1/4/2011-31/3/2012** | 22/12/2009-31/3/2011 |
| Revenue recognised during the year/period including revenue arising from: | **US$** | US$ |
| Turnover: | | |
| Export sales | **21,831,903** | – |
| Other revenue: | | |
| Bank interest income | **1,081** | – |
| Claim to suppliers | **80,211** | – |
| Sundry income | **316,835** | – |
| | **398,127** | – |
| Total revenue recognised | **22,230,030** | – |

**7. FINANCE COSTS**

| | | |
|---|---|---|
| Bank interest and bank charges | **147,040** | – |
| Other interest paid | **193,319** | – |
| | **340,359** | – |

**8. PROFIT/(LOSS) BEFORE TAXATION**

Profit/(Loss) before taxation is stated after charging and (crediting):

| | 1/4/2011-31/3/2012 US$ | 22/12/2009-31/3/2011 US$ |
|---|---|---|
| Depreciation | 384,405 | – |
| Exchange difference | ( 127,799) | – |
| Staff costs | | |
| – Salaries and allowance | 1,556,621 | – |
| – Employee benefit | 67,195 | – |
| – Employee welfare | 25,315 | – |

**9. DIRECTORS' REMUNERATION**

| | | |
|---|---|---|
| Fees | – | – |
| Other emoluments | – | – |
| | – | – |

**10. TAXATION**

No provision for Hong Kong profits tax has been made in these financial statements as the Group made no estimated assessable profits arising in Hong Kong for the year. Profits tax of subsidiary has been provided at the prevailing rate of the country the subsidiary operates.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/4/2011-31/3/2012 US$ | 22/12/2009-31/3/2011 US$ | 1/4/2011-31/3/2012 US$ | 22/12/2009-31/3/2011 US$ |
| Overseas income tax | | | | |
| – current year | 280,263 | – | – | – |
| Withholding tax of dividends received | – | – | 79,893 | – |
| Deferred tax | 72,241 | – | – | – |
| Total | 352,504 | – | 79,893 | – |

a. The tax charge for the year can be reconciled to the profit/(loss) per Consolidated Statement of Comprehensive Income as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 1/4/2011-31/3/2012 US$ | 22/12/2009-31/3/2011 US$ | 1/4/2011-31/3/2012 US$ | 22/12/2009-31/3/2011 US$ |
| Profit/(Loss) before taxation | 2,521,875 | (3,965) | (129,239) | 3,965) |
| Tax at the domestic income tax rate | 466,485 | ( 654) | ( 21,324) | (654) |
| Tax effect of expenses that are not deductible in determining taxable profit | 75,725 | 508 | 52,042 | 508 |
| Tax effect of income that are not taxable in determining taxable profit | (406,110) | – | (66,090) | – |
| Net tax allowance claimed | 28,898 | – | – | – |
| Tax loss not yet recognised | 35,372 | 146 | 35,372 | 146 |
| Withholding income tax of dividends received from subsidiary | 79,893 | – | 79,893 | – |
| Current year deferred tax | 72,241 | – | – | – |
| Taxation expense for the year/period | 352,504 | – | 79,893 | – |

b. The following is the analysis of deferred tax balance presented on the consolidated statement of financial position.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 US$ | 2011 US$ | 2012 US$ | 2011 US$ |
| Subsidiary: | | | | |
| Deferred tax assets | 173,780 | – | – | – |

At the end of reporting period, the Company has unused tax losses of US$214,382 (2011: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Tax losses maybe carried forward indefinitely.

**11. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS**

Included in the profit of US$2,168,945 (2011: loss of US$3,965) attributable to shareholders of the Group is a profit ofUS$209,132 (2011: loss ofUS$3,965) which is dealt with in the Company's own accounts.

**12. PROPERTY, PLANT AND EQUIPMENT**

**GROUP**

| | Land US$ | Infrastructures US$ | Machineries US$ | Furniture and Fixtures US$ | Moter Vehicles US$ | Tools and Equipment US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Acquisition of a subsidiary | 182,932 | 279,978 | 1,850,652 | 155,834 | 309,995 | 321,033 | 3,100,424 |
| Additions | – | 696 | 155,888 | 515 | 1,362 | 6,668 | 165,129 |
| Disposal | – | – | – | (561) | – | – | (561) |
| At 31/3/2012 | 182,932 | 280,674 | 2,006,540 | 155,788 | 311,357 | 327,701 | 3,264,992 |
| Aggregate Depreciation | | | | | | | |
| Acquisition of a subsidiary | – | 202,007 | 1,321,920 | 109,812 | 171,194 | 243,510 | 2,048,443 |
| Charge for the year | – | 34,961 | 236,198 | 21,533 | 63,021 | 28,692 | 384,405 |
| Written back | – | – | – | (561) | – | – | (561) |
| At 31/3/2012 | – | 236,968 | 1,558,118 | 130,784 | 234,215 | 272,202 | 2,432,287 |
| Net Book Value | | | | | | | |
| At 31/3/2012 | 182,932 | 43,706 | 448,422 | 25,004 | 77,142 | 55,499 | 832,705 |
| At 31/3/2011 | – | – | – | – | – | – | – |

Depreciation expenses ofUS$236,169 has been charged to consolidated statement of comprehensive income within cost of goods sold, and US$148,209 has been charged to consolidated statement of comprehensive income within depreciation expenses.

As of March 31, 2012, machineries and equipments are used as collateral for bank loan facilities amounting to US$ 1 ,800,000 (Note 20).

### 13. INTEREST IN AN ASSOCIATE

| | GROUP AND COMPANY | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Unlisted shares, at cost | **2,854,421** | – |
| Share of net results of associate | **(45,015)** | – |
| | **2,809,406** | – |
| Amount due from an associate | **750,000** | – |
| | **3,559,406** | – |

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayments. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

Details of the associate are as follows:

| Name | Place of incorporation | Percentage of equity shares held | | Principal activity |
|---|---|---|---|---|
| | | **2012** | **2011** | |
| House of Pearl Fashions (US) Ltd. | The United States | 23.08% | – | Distribution of mens and womens apparel |

### 14. INTEREST IN A SUBSIDIARY COMPANY

| | COMPANY | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Unlisted shares, at cost | **1,541,412** | – |

Details of the subsidiary are as follows:

| Name of subsidiary | Place of incorporation | Percentage of equity attributable to the Group | | Principal activity |
|---|---|---|---|---|
| | | **2012** | **2011** | |
| * PT Norwest Industry | Indonesia | 99.87% | – | Engaged in garment and textiles industry |

* Not audited by Louis Lai & Luk

### 15. INVENTORIES

| | GROUP | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Work in progress | 921,234 | – |

As of March 31, 2012, inventories are used as collateral for bank loan facilities amounting to US$ 1,100,000 (Note 20).

### 16. TRADE AND OTHER RECEIVABLES

| | GROUP | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Trade receivables (Note (i)) | **2,399,432** | – |
| Other receivable | **61,267** | – |
| | **2,460,699** | – |
| (i) Aging analysis of trade receivables is as follows: | | |
| Neither past due nor impaired | **2,321,494** | – |
| Past due but not impaired | **77,938** | – |
| | **2,399,432** | – |

As of March 31, 2012, trade recievables are used as collateral for bank loan facilities amounting to US$1 ,600,000 (Note 20).

### 17. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY/A FELLOW SUBSIDIARY

The amounts due from ultimate holding company/a fellow subsidiary are unsecured, interest-free and have no fixed terms of repayments. No provisions for bad and doubtful debts have been recognised on the amounts due from ultimate holding company/a fellow subsidiary. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

### 18. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES/A DIRECTOR

Apart from a balance with a fellow subsidiary amounting to US$412,568 and a balance with ultimate holding company amounting to US$4,275,750 which is interest-bearing at a rate of 9% and 7% per annum respectively, the remaining amounts are interest-free. The amounts due are unsecured and have no fixed terms of repayment. The ultimate holding company, fellow subsidiaries and director had agreed not to demand repayment until the Group is financially capable of repayment. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

### 19. TRADE PAYABLES

| | GROUP | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Trade payables (Note (i)) | **893,496** | – |
| (i) Maturity of the trade payables is as follows: | | |
| Due for payment: | | |
| Not later than one year | **893,496** | – |

### 20. SECURED BANK BORROWINGS

The carrying amount of the secured bank borrowings at the end of reporting period is analyzed as follows:

| | GROUP | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Amount repayable within one year: | | |
| Import loan | 960,420 | – |
| Export loan | 47,078 | – |
| Packing credit loan | 277,027 | – |
| | 1,284,525 | – |

The bank loan facilities are secured by the Group's machineries and equipments, inventories, trade receivables together with corporate guarantee from ultimate holding company.

### 21. EMPLOYEE BENEFITS OBLIGATION

| | GROUP | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Acquisition of a subsidiary | 116,588 | – |
| Charged to Consolidated Statement of Comprehensive Income | 67,195 | – |
| Payment during the year | (13,664) | – |
| | 170,119 | – |

### 22. SHARE CAPITAL

| | COMPANY | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Authorised, issued and fully paid up: | | |
| 10,000 shares ofUS$1 each | 10,000 | 10,000 |

### 23. RESERVES

| | COMPANY |
|---|---|
| | Accumulated Losses US$ |
| Total comprehensive expense for the period and balance at March 31, 2011 and April 1, 2011 | (3,965) |
| Total comprehensive expense for the year | (209,132) |
| Balance at March 31, 2012 | (213,097) |

## 24. ACQUISITION OF A SUBSIDIARY

During the year, the Company acquired PT Norwest Industry. Details of the net assets acquired and excess of share of acquired assets over purchase consideration are as follows:

| | US$ |
|---|---|
| Purchase consideration: | |
| – cash paid | 1,541,412 |
| Total purchase consideration | |
| Fair value of net identifiable assets acquired, attributable to equity holders of the Company | 3,999,347 |
| Excess of share of acquired assets over the purchase consideration | (2,457,935) |

The assets and liabilities arising from the acquisition are as follows:

| | US$ |
|---|---|
| **ASSETS** | |
| Cash and bank balances | 509,079 |
| Trade and other receivables | 3,065,592 |
| Inventories | 1,946,475 |
| Trade deposit paid | 865,710 |
| Prepayments | 235,427 |
| Other current assets | 17,138 |
| Deferred tax asset | 246,021 |
| Property, plant and equipment | 1,051,981 |
| Deposits | 70,707 |
| **LIABILITIES** | |
| Secured bank borrowings | (2,525,495) |
| Trade payables | (709,382) |
| Accruals and other payables | (455,148) |
| Amount due to a fellow subsidiary | (172,264) |
| Provision for taxation | (9,240) |
| Receipt in advance | (15,333) |
| Employee benefits obligation | (116,588) |
| | 4,004,680 |
| Non-controlling interests | (5,333) |
| Net assets acquired | 3,999,347 |
| Inflow of cash to acquired business, net of cash acquired: | |
| - cash and bank balances in subsidiary acquired on acquisition | 509,079 |
| Less: Cash consideration | (1,541,412) |
| Net cash outflow from the acquisition | (1,032,333) |

## 25. RELATED PARTY TRANSACTIONS

During normal course of business, the Group had the following transactions with the related parties below.

| Name of Company | Relationship with the Company | Nature of transactions | 2012 US$ | 2011 US$ |
|---|---|---|---|---|
| Norwest Industries Ltd., Hong Kong | Fellow subsidiary | - Amount due to | **–** | (3,914) |
| Global Textile Group Ltd. | Fellow subsidiary | - Amount due to | **(750,000)** | – |
| Pearl Global Fareast Ltd. | Fellow subsidiary | - Amount due from | **400,000** | – |
| Pearl Global Industries Ltd. (formerly known as House of Pearl Fashions Ltd.), India | Ultimate holding company | - Interest paid | **27,569** | – |
| | | - Amount due (to)/ from | **(4,275,202)** | 10,000 |
| | | - Purchases | **87,646** | – |
| Multinational Textile Group Ltd., Mauritius | Fellow subsidiary | - Interest paid | **165,750** | – |
| | | - Amount due to | **(412,568)** | – |

## 26. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Group's Board of Director on May 22, 2012.

## INDEPENDENT AUDITORS' REPORT

The Stockholders and Directors

**PT Norwest Industry**

We have audited the accompanying statements of financial position of PT Norwest Industry as of March 31, 2012 and 2011 and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, with the exception of the matter described in the following paragraph, the financial position of PT Norwest Industry as of March 31, 2012 and 2011, and the results of its operations, changes in equity and cash flows for the years then ended in conformity with the Indonesian Financial Accounting Standards.

As disclosed in Notes 2 to the financial statements, the Company has not implemented the Indonesian Statement of Financial Accounting Standard ("PSAK") No. 50 (Revised 2006) "Financial Instruments: Presentation and Disclosures" and PSAK No. 55 (Revised 2006) "Financial Instruments: Recognition and Measurement", which are applicable and have significant impact for financial statements covering periods beginning on or after January 1, 2010, and PSAK No. 48 "Impairment of Assets", which is applicable and have significant impact for financial statements covering periods beginning on or after January 1, 2011. The management has informed that impact of these standards on the financial statements has not been determined .

As disclosed in Note 2 to the financial statements, the Company adopted certain PSAKs which became effective on January 1, 2011and have been applied on prospective or retrospective basis.

The Indonesian Financial Accounting Standards differs in certain significant respects with the International Financial Reporting Standards (IFRS). Information relating to the nature and effect of such differences is presented in Notes 22, 23, and 24 to the financial statements.

Sd/-
Maurice Ganda Nainggolan
Public Accountant Licence Number: AP.0147

Jakarta, April 26, 2012

## STATEMENTS OF FINANCIAL POSITION

As of March 31, 2012 and 2011
(In US Dollar)

| | Notes | 2012 USD | 2011 USD |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and Cash Equivalents | 3.b, 3.e, 4 | **665,773** | 509,079 |
| Accounts Receivable | | | |
| Third Parties | 3.b, 3.f, 5 | **2,399,432** | 3,024,169 |
| Related Parties | 3.b, 3.f, 5 | **–** | – |
| Other Receivables | | | |
| Third Parties | 6 | **305** | 521 |
| Related Parties | 3.c, 6 | **61,510** | 40,902 |
| Inventories | 3.g, 7 | **921,234** | 1,946,475 |
| Advance to Suppliers | 8 | **1,326,436** | 865,710 |
| Prepaid Taxes | 3.l, 14.a | **261,100** | 149,194 |
| Prepaid Expenses | 3.h, 9 | **82,378** | 86,233 |
| Other Current Assets | | **–** | 17,138 |
| Total Current Assets | | **5,718,168** | 6,639,421 |
| **Non Current Assets** | | | |
| Deferred Tax Assets | 3.l, 14.d | **173,780** | 246,021 |
| Fixed Assets | | | |
| *(Net of accumulated depreciation of USD 2,432,287 and USD 2,048,443 as of March 31, 2011 and 2010)* | 3.i, 10 | **832,705** | 1,051,981 |
| Refundable Deposits | 11 | **99,302** | 98,604 |
| Total Non Current Assets | | **1,105,787** | 1,396,606 |
| **TOTAL ASSETS** | | **6,823,955** | 8,036,027 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Bank Loans | 12 | **1,284,525** | 2,525,495 |
| Accounts Payable | 13 | **893,496** | 881,646 |
| Other Payables | | **13,364** | 13,062 |
| Taxes Payable | 3.l, 14.b | **57,297** | 9,240 |
| Accrued Expenses | 15 | **442,612** | 442,086 |
| Advance from Buyers | | **–** | 15,333 |
| Total Current Liabilities | | **2,691,294** | 3,886,862 |
| **Non-Current Liabilities** | | | |
| Employee Benefits Obligation | 3.j,16 | **170,119** | 116,588 |
| Total Non-Current Liabilities | | **170,119** | 116,588 |
| **Total Liabilities** | | **2,861,413** | 4,003,450 |
| **Equity** | | | |
| Capital Stock - Par Value USD 10 per Share | | | |
| Authorized - 200,000 Shares, Issued and Fully Paid - 150,198 Shares as of March 31, 2012 and 2011 | 17.a | **1,501,980** | 1,501,980 |
| Additional Paid-in Capital | | **1,980** | 1,980 |
| Retained Earnings | | **2,458,582** | 2,528,617 |
| Total Equity | | **3,962,542** | 4,032,577 |
| **TOTAL LIABILITIES AND EQUITY** | | **6,823,955** | 8,036,027 |

## STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended March 31, 2012 and 2011
(In US Dollar)

| | Notes | 2012 USD | 2011 USD |
|---|---|---|---|
| **REVENUES** | 3.k, 18 | **21,831,903** | 19,368,344 |
| **COST OF GOODS SOLD** | 3.k, 19 | **18,687,204** | 17,114,427 |
| **GROSS PROFIT** | | **3,144,699** | 2,253,917 |
| Gain (Loss) on Foreign exchange - Net | | **127,806** | 393,707 |
| Claim from (to Suppliers) - Net | | **80,211** | 269,645 |
| Gain on Disposal of Fixed Assets | 10 | **–** | 17,625 |
| Other Income - Net | | **326,765** | 311,459 |
| General and Administrative Expenses | 3.k, 20 | **(2,803,143)** | (2,665,411) |
| Selling Expenses | 3.k, 20 | **(273,762)** | (140,657) |
| | | **(2,542,123)** | (1,813,632) |
| **INCOME BEFORE INCOME TAX** | | **602,576** | 440,285 |
| **INCOME TAX BENEFITS (EXPENSES)** | | | |
| Current Tax | 3.l, 14.c | **(200,370)** | (174,004) |
| Deferred Tax | 3.l, 14.d | **(72,241)** | 42,382 |
| Total Income Tax Expenses | | **(272,611)** | (131,622) |
| **NET INCOME FOR THE YEAR** | | **329,965** | 308,663 |
| **OTHER COMPREHENSIVE INCOME** | | **–** | – |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **329,965** | 308,663 |

## STATEMENTS OF CHANGES IN EQUITY

For the Years Ended March 31, 2012 and 2011
(In US Dollar)

| | Notes | Capital Share USD | Additional Paid-in Capital USD | Retained Earnings USD | Total Equity USD |
|---|---|---|---|---|---|
| **Balance as of March 31, 2010** | | **1,501,980** | **1,980** | **2,219,954** | **3,723,914** |
| Comprehensive Income for the Year | | – | – | 308,663 | 308,663 |
| **Balance as of March 31, 2011** | | **1,501,980** | **1,980** | **2,528,617** | **4,032,577** |
| Comprehensive Income for the Year | | – | – | 329,965 | 329,965 |
| Cash Dividends | 17.b | – | – | (400,000) | (400,000) |
| **Balance as of March 31, 2012** | | **1,501,980** | **1,980** | **2,458,582** | **3,962,542** |

## STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2012 and 2011
(In US Dollar)

| | Notes | 2012 USD | 2011 USD |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income Before Income Tax and Interest Expenses | | **749,616** | 598,262 |
| Adjustments for: | | | |
| Depreciation | | **384,405** | 384,610 |
| Gain on Disposals of Property and Equipment | | **–** | (17,625) |
| Employee Benefits Obligation | 16 | **67,195** | 34,684 |
| Operating Income Before Changes in Working Capital | | **1,201,216** | 999,931 |
| Changes in Assets and Liabilities: | | | |
| Account and Other Receivables | | **604,345** | (45,934) |
| Inventories | | **1,025,241** | (1,412,562) |
| Advance to Suppliers and Prepayments | | **(485,868)** | (4,680) |
| Other Current Assets | | **17,138** | 1,156 |
| Account and Other Payables | | **12,152** | 505,174 |
| Accrued Expenses | | **526** | 84,773 |
| Taxes Payables Other than Corporate Income Tax | | **(108,405)** | (2,289) |
| Cash Generated from Operations | | **2,266,345** | 125,569 |
| Interest Paid | 20 | **(147,040)** | (157,737) |
| Income Tax Paid | | **(155,814)** | (174,124) |
| Net Cash Flows Used in (Provided by) Operating Activities | | **1,963,491** | (206,292) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of Property and Equipment | 10 | **(165,129)** | (163,601) |
| Proceeds from Sale of Property and Equipment | | **–** | 66,441 |
| Additional Refundable Deposits | | **(698)** | (2,085) |
| Net Cash Flows Used in Investing Activities | | **(165,827)** | (99,245) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from (Repayment of) Bank Loans - Net | | **(1,240,970)** | 650,089 |
| Dividend Payment | | **(400,000)** | – |
| Net Cash Flows Provided by (Used In) Financing Activities | | **(1,640,970)** | 650,089 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **156,694** | 344,552 |
| **CASH AND CASH EQUIVALENTS - AT THE BEGINNING OF THE YEAR** | | **509,079** | 164,527 |
| **CASH AND CASH EQUIVALENTS - AT THE END OF THE YEAR** | | **665,773** | 509,079 |
| Cash and Cash Equivalents consist of: | 3.b, 3.e, 4 | | |
| Cash on Hand | | **18,739** | 29,973 |
| Cash in Banks | | **647,034** | 456,548 |
| Time Deposits | | **–** | 22,558 |
| **TOTAL** | | **665,773** | 509,079 |

## NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended March 31, 2012 and 2011
(In US Dollar)

**1. General**

**1.a. Background**

PT Norwest Industry (the "Company") was established based on Notarial Deed No. 27 of H. Dana Sasmita, SH, Notary in Jakarta, dated April 8, 2002. The deed of establishment was approved by Ministry of Justice of Republic of Indonesia in its Decision Letter No. C-14557.HT.01.01.TH.2002 dated August 5, 2002. Based on notarial deed No. 52 of Popies Savitri Martosuhardjo Pharmanto, SH notary in Jakarta, dated March 31, 2011, Global Textiles Group Limited sells its shares to Pearl Global (HK) Limited. The change in capital structure effectively on April 1, 2011 and has been approved by the Ministry of Law and Human Rights of the Republic of Indonesia through its letter No. AHU-AH.01.10-13264, dated May 4, 2011. Based on notification of approval from the Capital Investment Coordination Board (BKPM) No. 187/I/PMA/2002 dated April 4, 2002 the Company was established within the framework of the Foreign Capital Investment.

The Company's Articles of Association have been amended several times, most recently related to changes in capital structure based on Notarial Deed No. 58 of Popie Savitri Martosuhardjo, SH, Notary in Jakarta, dated April 24, 2008 and has been approved by the Ministry of Law and Legislation in its Decision Letter No. AHU-24082.AH.01.02. Tahun 2008, dated May 8, 2008.

In accordance with article 3 of Article of Association and Notification of Approval from the Capital Investment Coordination Board (BKPM) No. 187/I/PMA/2002 dated April 4, 2002 the Company is engaged in garment and textiles industry. Notification of Approval from the Capital Investment Coordination Board has been amended several times and most recently was No. 868/III/PMA/2008 dated May 29, 2008.

The Company domiciled in Jakarta and its factory located in Tanjung Emas Export Processing Zone, Semarang. The Company started its commercial activities on September 2002.

As of March 31, 2012 and 2011, the Company has a total permanent employees of 1,955 and 2,374 people (unaudited).

**1.b. The Company's Management**

The Company's management as of March 31, 2012 and 2011 consists of the following:

| | |
|---|---|
| Commissioner | : Rajesh Vishnu Ajwani |
| President Director | : Pulkit Seth |
| Director | : Amit Kumar |

**2. Adoption of Statements and Interpretation of Financial Accounting Standards (PSAK and ISAK)**

**Standards Effective in the Current Year**

Changes to the following standard must be applied mandatory for the first time for the financial year beginning on January 1, 2011.

- PSAK No. 1 "Presentation of Financial Statements". An Entity can choose to present a single comprehensive income statement method or two comprehensive income statement methods. The Company choose to present a single comprehensive income statement.

The following new standards, revision to the standards and interpretation of the standards that have to be applied mandatory for the first time for the financial year beginning on January 1, 2011, but are not relevant or have no material impact to the company:

**Statements of Financial Accounting Standards ("PSAK")**

- PSAK No. 2 (Revised 2009) "Statement of Cash Flows".
- PSAK No. 3 (Revised 2010) "Interim Financial Reporting".
- PSAK No. 4 (Revised 2009) "Consolidated and Separate Financial Statements".
- PSAK No. 5 (Revised 2009) "Operating Segments".
- PSAK No. 7 (Revised 2010) "Related Party Disclosures".
- PSAK No. 8 (Revised 2009) "Events after the Reporting Period".
- PSAK No. 12 (Revised 2009) "Interests in Joint Ventures".
- PSAK No. 15 (Revised 2009) "Investments in Associates".
- PSAK No. 19 (Revised 2010) "Intangible Assets".
- PSAK No. 22 (Revised 2010) "Business Combination".
- PSAK No. 23 (Revised 2010) "Revenues".
- PSAK No. 25 (Revised 2009) "Accounting Policies, Changes in Accounting Estimates and Errors".
- PSAK No. 57 (Revised 2009) "Provisions, Contingent Liabilities and Contingent Assets".
- PSAK No. 58 (Revised 2009) "Non Current Assets Held for Sale and Discontinued Operations".

**Interpretation of Financial Accounting Standards ("ISAK")**

- ISAK 7 (Revised 2009) "Consolidation Special Purpose Entities".
- ISAK 9 "Changes in Existing, Decommissioning, Restoration and Similar Liabilities".
- ISAK 10 "Customer Loyalty Programmes".
- ISAK 11 "Distribution of Non-cash Assets to Owners".
- ISAK 12 "Jointly Controlled Entities – Non Monetary Contributions by Ventures".
- ISAK 14"Intangible Assets – Web Site Cost".
- ISAK 17 "Interim Financial Reporting and Impairment".

The Company has not implemented the Indonesian Statement of Financial Accounting Standard ("PSAK) No. 50 (Revised 2006) "Financial Instruments: Presentation and Disclosures" and PSAK No. 55 (Revised 2006) "Financial Instruments: Recognition and Measurement", which are applicable and have significant impact for financial statements covering periods beginning on or after January 1, 2010, and PSAK No. 48 "Impairment of Assets", which are applicable and have significant impact for financial statements covering periods beginning on or after January 1, 2011. The management has informed that impact of these standards on the financial statements has not been determined.

**3. Summary of Significant Accounting Policies**

**3.a. Basis of Financial Statements Preparation**

The financial statements prepared in conformity with Indonesian Financial Accounting Standards, using going concern and historical cost basis of accounting concepts. The basic have been consistently applied and will be noted otherwise.

The statement of cash flows is prepared using the indirect method, by classifying cash flows into operating, investing and financing activities.

**3.b. Foreign Currency Transactions and Balances**

The Company maintains its accounting records in US Dollar. Transactions in other currencies are recorded at the rate of exchange prevailing on the date of the transactions. At balance sheet date, all monetary assets and liabilities in Rupiah and other currencies are converted into US Dollar at Bank Indonesia midrates. Exchange rates used on March 31, 2012 were IDR 9,504, Euro 0.75, HKD 7.76, SGD 1.26, and GBP 0.64 while on March 31, 2011 were IDR 8,709, Euro 0.71, HKD 7.79, SGD 1.26 and GBP 0.62.

Exchange gains or losses arising from foreign currency translations are recognized in the current period's statements of income.

**3.c. Transaction with Related Parties**

In 2011, the Indonesian Institute of Accountant (IAI) issued SFAS No. 7 (Revised 2010), "Related Party Disclosures" which became effective as of January 1, 2011. This Standard requires disclosures of relationship, transaction and balances related parties including comments in financial statements. The Company has not implemented this standard in 2011, the impact of this standard on the financial statement has not implemented.

**3.d. Financial Asset and Financial Liabilities**

In 2006 Indonesian Institute of Accountants (IAI) issued SFAS No. 50 (Revised 2006), "Financial Instruments: Disclosure and Presentation" and SFAS No. 55 (Revised 2006), "Financial Instruments: Recognition and Measurement". Those two statements replace SFAS 50 "Accounting for Investment in Certain Securities" and SFAS 55 "Accounting for Derivative Instruments and Hedging Activities". Both statements are effective for financial statements covering periods beginning on or after January 1, 2010.

The Company has not implemented those standards in 2012 and 2011, the impact of those standards on the financial statements has not been determined.

**3.e. Cash and Cash Equivalents**

Cash and cash equivalents consist of time deposits with maturities not more than or equal to 3 (three) months since their placement and not pledged as collateral.

**3.f. Account Receivables and Allowance for Doubtful Accounts**

Account receivable is recorded in net realizable value. The Company determines allowance for doubtful accounts based on the review over accounts balances for each debtor at the end of the year. The write off of relevant account receivable will be done when management believes that such account receivable were to be definitely uncollectible.

**3.g. Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the moving average method.

**3.h. Prepaid Expenses**

Prepaid expenses are amortized over their beneficial periods using the straight line method.

**3.i. Fixed Assets**

Property and equipment, except land, are measured based on cost method and stated cost less accumulated depreciation and provision for impairments. Depreciations are calculated using straight-line method over their estimated useful life. The useful life is as follows:

| | Useful lives | % per Annum |
|---|---|---|
| Infrastructures | 5 | 20 |
| Machineries | 5 | 20 |
| Furniture and Fixtures | 5 | 20 |
| Vehicles | 5 | 20 |
| Tools and Equipment | 3-5 | 20-33 |

The costs of maintenance and repair are charged to operations as incurred; expenditures in significant amounts that result in increase the quality of the assets are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the current year statements of income.

**3.j. Employee Benefits Obligation**

The Company calculates employee benefits in accordance with SFAS No. 24 (Revised 2004) concerning "Employee Benefits".

Short-term employee benefits are recognized at undiscounted amount when an employee has rendered service to the Company during an accounting period.

Post-employment benefits are recognized at a discounted amount when an employee has rendered service to the Company during an accounting period. Liabilities and expenses are measured using actuarial techniques which include constructive obligation that arises from the Company's informal practices. In calculating the liabilities, benefits should be discounted by using projected unit credit method.

Termination benefits are recognized when, and only when, the Company is demonstrably committed to either:

a. terminate an employee or group of employees before the normal retirement date; or

b. provide termination benefits as a result of an offer made in order to encourage voluntary redundancy

**3.k. Revenues and Expenses Recognition**

Revenue is recognized when invoices are made and delivered to customers at the time of shipment. Expense is recognized when incurred.

**3.l. Taxation**

All temporary differences arising between tax bases of assets and liabilities and their carrying value are recognized as deferred tax using the liability method. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets relating to carry forward unused tax losses are recognized to the extent that it is probable the future taxable profit will be available against which the unused tax losses can be utilized. Amendments to tax obligations are recorded when an assessment is received or, if appealed against, when the results of the appeal are determined.

Current tax is recognized based on taxable income for the year, in accordance with current tax regulation.

**3.m. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**4. Cash and Cash Equivalents**

| | 2012 USD | 2011 USD |
|---|---|---|
| **Cash on Hand** | | |
| Rupiah | **13,843** | 26,778 |
| USD | **4,502** | 2,745 |
| Poundsterling | **210** | 210 |
| Euro | **168** | 168 |
| HKD | **–** | 38 |
| SGD | **16** | 34 |
| Sub Total | **18,739** | 29,973 |
| **Cash in Banks** | | |
| Rupiah | **161,102** | 136,633 |
| USD | **485,926** | 319,909 |
| Euro | **6** | 6 |
| Sub Total | **647,034** | 456,548 |
| **Time Deposits** | | |
| Rupiah | **–** | 22,558 |
| Sub Total | **–** | 22,558 |
| Total | **665,773** | 509,079 |

**5. Accounts Receivable**

| | 2012 USD | 2011 USD |
|---|---|---|
| **Third Parties** | | |
| Esprit | **1,134,450** | 766,581 |
| S.Oliver Bernd Freier GMBH & Co.Kg | **653,083** | 699,305 |
| JC Penney Purch Corp | **368,322** | 442,888 |
| Express | **221,042** | 305,603 |
| The Limited | **8,042** | 209,763 |
| The Gap Inc | **–** | 491,847 |
| Liz Claiborne inc | **–** | 91,438 |
| Others (below USD 15,000) | **14,493** | 16,744 |
| Sub total | **2,399,432** | 3,024,169 |
| **Related Parties** | **–** | – |
| **Total** | **2,399,432** | 3,024,169 |

As of March 31, 2012 and 2011, account receivables are used as collateral for bank loan facilities amounting to USD 1,600,000 and 1,100,000, respectively (Note 12).

| | 2012 USD | 2011 USD |
|---|---|---|
| 0 - 30 days | **2,079,814** | 2,291,324 |
| 31 - 60 days | **239,031** | 366,422 |
| 61 - 90 days | **2,649** | 230,887 |
| 91 - 120 days | **2,691** | 115,444 |
| > 120 days | **75,247** | 20,092 |
| Sub total | **2,399,432** | 3,024,169 |

Management believes that all account receivables are collectible; accordingly the management does not provide allowance for doubtful accounts.

**6. Other Receivables**

| | 2012 USD | 2011 USD |
|---|---|---|
| **Third Parties** | | |
| Others (below USD 2,000) | **305** | 521 |
| Sub total | **305** | 521 |

| | 2012 USD | 2011 USD |
|---|---|---|
| **Related Parties** | | |
| Employees | **60,962** | 40,902 |
| House of Pearl Fashions | **548** | – |
| Sub total | **61,510** | 40,902 |
| **Total** | **61,815** | 41,423 |

As of March 31, 2012 and 2011, other receivables to the third parties mainly represent claim to suppliers and insurance claim to PT Asuransi Indrapura and employee receivables mainly represent loan which is given by the Company to support the household needs and the repayment is deducted from the monthly salaries.

7. **Inventories**

| | 2012 USD | 2011 USD |
|---|---|---|
| **Work in Process** | **921,234** | 1,946,475 |

Based on a review of inventories, the Company's management believes there is no impairment on inventories, thus management does not provide allowance for inventories obsolescence accounts. Inventories are covered by insurance against losses from fire and other risks under several blanket policies amounting to USD 3,300,000 as of March 31, 2012 and USD 2,465,000 as of March 31, 2011, respectively. Management believes that sum of insured is adequate to cover possible losses from fire and other risks of related assets.

As of March 31, 2012 and 2011, Inventories are used as collateral for bank loan facilities amounting to USD 1,100,000, respectively (Note 12).

8. **Advance to Suppliers**

| | 2012 USD | 2011 USD |
|---|---|---|
| Anand Fashion Int LLc | **451,178** | 501,178 |
| Pearl Global Fareast Ltd | **400,000** | – |
| Express (PGFE) | **83,294** | – |
| Room Textiles Co Ltd | **53,245** | 8,054 |
| Mast Industries (Far East) Limited | **34,107** | 21,026 |
| Tat Fung Textile Co Ltd | **30,931** | – |
| Benefits Industrial Limit | **18,443** | – |
| Esprit | **17,584** | – |
| APL Logistic | **15,810** | 5,190 |
| Winspeed Trading & Service | **15,225** | – |
| Marubeni Hongkong & Sout | **14,753** | – |
| Global Fashion Sourcing L | **13,959** | – |
| Talent Weaving Dyeing & P | **13,910** | – |
| Winnitex Limited | **12,490** | – |
| Wooju Inti Indonesia, PT | **11,012** | 11,012 |
| Uni Air | **10,927** | – |
| Others (below USD 10,000) | **129,568** | 319,250 |
| **Total** | **1,326,436** | 865,710 |

9. **Prepaid Expenses**

| | 2012 USD | 2011 USD |
|---|---|---|
| Factory Rent | **62,290** | 4,048 |
| Work Permit | **12,900** | 13,800 |
| Prepaid Expenses | **5,018** | – |
| House Rent | **558** | 62,087 |
| Office Rent | **–** | 5,756 |
| Others (below USD 2,000) | **1,612** | 542 |
| **Total** | **82,378** | 86,233 |

House rent mainly represents houses allowances from the Company to expatriate employees in Jakarta and Semarang. Factory rent represents factories space rental in Semarang, Central Java. On May 15, 2002, the Company has taken factory premises on rent in Semarang, Central Java, from PT Lamicitra Nusantara Tbk, the third party, for 5 years and extended the term until October 15, 2013. On November 22, 2007, the Company has also taken additional premises for expansion of their production activities to the same lender for 5 years covering 8,244 $m^2$.

10. **Fixed Assets**

| 2012 | Beginning Balance April 1, 2011 USD | Additions USD | Disposals USD | Reclassification USD | Ending Balance March 31, 2012 USD |
|---|---|---|---|---|---|
| **Direct Ownership** | | | | | |
| **Cost** | | | | | |
| Land Titles | 182,932 | – | – | – | 182,932 |
| Infrastructures | 279,978 | 696 | – | – | 280,674 |
| Machineries | 1,850,652 | 155,888 | – | – | 2,006,540 |
| Furniture and Fixtures | 155,834 | 515 | 561 | – | 155,788 |
| Vehicles | 309,995 | 1,362 | – | – | 311,357 |
| Tools and Equipment | 321,033 | 6,668 | – | – | 327,701 |
| | 3,100,424 | 165,129 | 561 | – | 3,264,992 |
| **Accumulated Depreciation** | | | | | |
| Infrastructures | 202,007 | 34,961 | – | – | 236,968 |
| Machineries | 1,321,920 | 236,198 | – | – | 1,558,118 |
| Furniture and Fixtures | 109,812 | 21,533 | 561 | – | 130,784 |
| Vehicles | 171,194 | 63,021 | – | – | 234,215 |
| Tools and Equipment | 243,510 | 28,692 | – | – | 272,202 |
| | 2,048,443 | 384,405 | 561 | – | 2,432,287 |
| **Total** | 1,051,981 | | | | 832,705 |

| 2011 | Beginning Balance April 1, 2011 USD | Additions USD | Disposals USD | Reclassification USD | Ending Balance March 31, 2012 USD |
|---|---|---|---|---|---|
| Direct Ownership | | | | | |
| Cost | | | | | |
| Land Titles | 182,932 | – | – | – | 182,932 |
| Infrastructures | 271,856 | 8,122 | – | – | 279,978 |
| Machineries | 1,833,012 | 85,972 | 68,332 | – | 1,850,652 |
| Furniture and Fixtures | 154,089 | 1,745 | – | – | 155,834 |
| Vehicles | 296,572 | 32,035 | 18,612 | – | 309,995 |
| Tools and Equipment | 274,201 | 27,831 | 4,999 | 24,000 | 321,033 |
| Capital Work in Progress | 24,000 | 7,896 | 7,896 | (24,000) | -- |
| | 3,036,662 | 163,601 | 99,839 | – | 3,100,424 |
| **Accumulated Depreciation** | | | | | |
| Infrastructures | 164,565 | 37,442 | – | – | 202,007 |
| Machineries | 1,126,099 | 231,247 | 35,426 | – | 1,321,920 |
| Furniture and Fixtures | 87,656 | 22,156 | – | – | 109,812 |
| Vehicles | 123,165 | 61,058 | 13,029 | – | 171,194 |
| Tools and Equipment | 213,371 | 32,707 | 2,568 | – | 243,510 |
| | 1,714,856 | 384,610 | 51,023 | – | 2,048,443 |
| **Total** | 1,321,806 | | | | 1,051,981 |

In 2012 and 2011, additional of fixed assets mainly consisted of purchases of machineries, tools and equipment, and vehicle. Deductions of fixed assets represent sale of machineries, motor vehicle, and tools and equipment.

| | 2012 USD | 2011 USD |
|---|---|---|
| Selling Price | **–** | 58,545 |
| Book Value | **–** | 40,920 |
| Gain on Disposal | **–** | 17,625 |

Based on management's review and estimates of the status of individual fixed assets at the end of the period, there is no impairment to write down which should be applied to the amount recorded in the balance sheets as of March 31, 2012 and 2011, respectively.

Land titles represent usage rights of Taman Pasadenia Apartment at Jakarta ("Hak Milik atas Satuan Rumah Susun") for a maximum period of 20 years and could be extended.

Fixed assets are covered by insurance against losses from fire and other risks under several blanket policies amounting to IDR 23,371,600,000 and USD 2,428,432 as of March 31, 2012 and IDR 300,000,000 and USD 2,426,000 as of March 31, 2011. Management is in opinion that sum of insured is adequate to cover possible losses from fire and other risks of related assets.

As of March 31, 2012 and 2011, Machineries and Equipment are used as collateral for bank loan facilities amounting to USD 1,800,000 and 1,300,000, respectively (Note 12).

Depreciation was charged to:

| | **2012 USD** | 2011 USD |
|---|---|---|
| Cost of Goods Sold (Note 19) | **236,196** | 268,689 |
| General and Administrative Expenses (Note 20) | **148,209** | 115,921 |
| **Total** | **384,405** | 384,610 |

## 11. Refundable Deposits

| | **2012 USD** | 2011 USD |
|---|---|---|
| Plants | **81,008** | 77,205 |
| Office | **8,538** | 11,156 |
| Electricity | **7,596** | 8,083 |
| Warehouses | **2,160** | 2,160 |
| Total | **99,302** | 98,604 |

## 12. Bank Loans

| | **2012 USD** | 2011 USD |
|---|---|---|
| HSBC Bank: | | |
| Import | **960,420** | 2,010,058 |
| Export | **47,078** | 127,641 |
| Packing Credit Loan | **277,027** | 387,796 |
| **Total** | **1,284,525** | 2,525,495 |

Based on Corporate Facility Agreement dated August 6, 2010, No. JAK/100695/U/100604, the Company has obtained credit facilities for import and export from HSBC with combined maximum limit amounting to USD 1,200,000 and subject to review any event. The agreement has been amended several times and most recently by amendment No. JAK/110774/U/110712 dated August 25, 2011 with combined maximum limit for purchase of raw materials (related import) amounting to USD 4,000,000 and combined maximum limit for short team working capital (related to export) amounting to USD 3,000,000. These facilities were charged interest of 5.25% per annum below the banks' prime lending rate for import facility and 5.5% per annum for export facility, for the year ended March 31, 2012 and 2011.

The facilities are secured by the followings:

- Fiduciary transfer over Machinery and Equipment for USD 1,800,000 and 1,300,000
- Fiduciary transfer over Stocks for USD 1,100,000;
- Fiduciary transfer over Accounts Receivable for USD 1,600,000 and 1,100,000;
- Letter of undertaking from shareholders to inject additional equity/subordinated loan to cover losses;
- Letter of undertaking from shareholders to ensure the Tangible Networth will remain at minimum USD 2,000,000; and
- Corporate guarantee from House of Pearl Fashion Ltd under Indian Law for USD 2,500,000.

Under the agreement, the Company should maintain debt to equity ratio not to exceed 1.5 and minimum current ratio of 1.0. As of March 31, 2012 and 2011, the Company has fulfilled these covenants.

Packing Credit Loan represents loan against Letter of Credit (LC). As of March 31, 2012 and 2011, the Company using Packing Credit Loan which is part of Export Credit Facilities amounting to USD 277,027 and USD 387,796, respectively.

## 13. Accounts Payable

| | **2012 USD** | 2011 USD |
|---|---|---|
| Genie Textile Co Ltd | **55,632** | – |
| Suzhou Jinwoo WVNG,PRNTG, | **94,590** | – |
| BSL International Trading Pte Ltd | **77,832** | – |
| Sumber Makmur | **72,168** | – |
| Lamicitra Nusantara | **52,454** | – |
| Tat Fung Testile Co Ltd | **39,556** | – |
| Express Provision | **36,281** | – |
| Gunze Indonesia | **29,482** | 34,396 |
| Atlas Laundry | **27,272** | – |
| Pearl Global | **–** | 172,264 |
| PT Uni Air Indotama Cargo | **–** | 78,285 |
| PCC Asia LLC | **–** | 63,795 |
| Joint Creation Enterprise Limited | **–** | 48,038 |
| Camin Textile Limited | **–** | 27,638 |
| Others (each below USD 20,000) | **408,229** | 457,230 |
| **Total** | **893,496** | 881,646 |

## 14. Taxation

### a. Prepaid Taxes

Prepaid taxes represent value added tax as of March 31, 2012 and 2011 amounting to USD 261,100 and USD 149,194, respectively.

### b. Taxes Payable

| | **USD** | USD |
|---|---|---|
| Income Tax Article 21 | **11,235** | 7,330 |
| Income Tax Article 23 | **955** | 770 |
| Income Tax Article 25 | **13,956** | – |
| Income Tax Article 26 | **–** | 506 |
| Income Tax Article 4 (2) | **37** | 120 |
| Income Tax Article 29 | **31,114** | 514 |
| **Total** | **57,297** | 9,240 |

### c. Income Tax Benefit (Expenses)

Reconciliation between income before estimated income tax as shown in the statements of income and estimated taxable income of the Company is as follows:

| | **2012 USD** | 2011 USD |
|---|---|---|
| Income before Income Tax as per Statement of Comprehensive Income. | 602,576 | 440,285 |
| **Permanent Difference:** | | |
| Interest Income already Subjected to Final Tax | (1,490) | (1,752) |
| Profit on Sales of Vehicles-Commercial | – | (17,625) |
| Profit on Sales of Vehicles-Fiscal | – | (3,223) |
| Non Deductible Expenses | | |
| Depreciation | – | 30,529 |
| Traveling | 1,604 | 22,783 |
| Expatriate Work Permit | 5,636 | 47,894 |
| Entertainment | 187 | 13,905 |
| Motor Vehicle Maintenance | **12,532** | 9,635 |
| Tax Penalty | **753** | 5,565 |
| Expatriate House Expenses | **–** | 5,198 |
| Mobile Phone | **3,331** | 3,443 |
| Guest House | **2,224** | 2,423 |
| Donation | **122** | 927 |
| Other | **4,882** | 3,131 |
| | **29,781** | 122,832 |

| | 2012 USD | 2011 USD |
|---|---|---|
| **Timing Difference:** | | |
| Depreciation | **115,593** | 98,216 |
| Employee Benefits | **53,531** | 34,684 |
| | **169,124** | 132,900 |
| **Taxable Income** | **801,481** | 696,017 |
| **Income Tax at Tax Rate of 25%** | **200,370** | 174,004 |
| **Total Income Tax Expense** | **200,370** | 174,004 |
| Credit Tax: | | |
| Income Tax Article 25 | **165,754** | 169,571 |
| Income Tax Article 22 | **3,502** | 3,919 |
| Total Credit Tax | **169,256** | 173,490 |
| **Corporate Income Tax Payable** | **31,114** | 514 |

On September 23, 2008, Government of Republic of Indonesia issued new Income Tax Regulation No. 36 Year 2008 on which, among others determining the graduated corporate income tax rate is charged from previous tax rate 30% to 28% in 2009 and 25% in 2010 and thereafter. The new regulation superseded Income Tax Regulation No. 17 year 2000 and is effective on January 1, 2009.

d. **Deferred Tax Assets**

| | March 31, 2010 USD | Credited (Charged) to Statement of Comprehensive Income USD | March 31, 2011 USD | Credited (Charged) to Statement of Comprehensive Income USD | March 31, 2012 USD |
|---|---|---|---|---|---|
| Depreciation | 183,163 | 33,711 | 216,874 | (85,624) | 131,250 |
| Provision for Employee Benefits | 20,476 | 8,671 | 29,147 | 13,383 | 42,530 |
| **Total** | **203,639** | **42,382** | **246,021** | **(72,241)** | **173,780** |

15. **Accrued Expenses**

| | 2012 USD | 2011 USD |
|---|---|---|
| Salaries and Wages | **252,202** | 277,428 |
| Bonus | **161,763** | 134,555 |
| Jamsostek Payable | **22,784** | 23,182 |
| Legal and Professional Fee | **5,863** | 6,921 |
| **Total** | **442,612** | 442,086 |

16. **Employee Benefits Obligation**

The Company provides benefits for its employees who achieve the retirement age at 55 based on the provisions of Labor Law No. 13/2003 dated March 25, 2003. The benefits are unfunded.

The Company calculated employee benefit obligation as of March 31, 2012 and 2011 based on management estimate. The underlying actuarial assumption used was in accordance with actuary report on March 31, 2012 and 2011. Management believes there is no significant difference affected to estimated employee benefit as of March 31, 2012 and 2011.

As of March 31, 2012 and 2011, the liability for employee benefits is calculated by an independent actuary, PT Bumi Dharma Aktuaria using the "Projected Unit Credit" method. Those calculation were also used as the basis for March 31, 2012 and 2011 reporting, in their report No. 604/UUK-13/BDA/IV/2012 dated April 5, 2012 and No. 326/UUK-13/BDA/IV/2011 dated April 19, 2011.

The principal assumptions used in determining employee benefits obligation as of March 31, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Financial assumption : | | |
| Discount Rate | **7%** | 10.5% |
| Future Salary Increase | **8%** | 8% |
| Other assumptions: | | |
| Mortality Rate | **CSO '88** | CSO '88 |
| Disability Rate | **10%** | 10% |
| Normal Retirement Age | **55 Years** | 55 Years |
| Valuation Cost Method | **Projected Unit Credit** | |

Voluntary resignation determined as 2% - 37% for employees below the age of 20-22 and will be linearly decreasing until 0% at the age of 54.

Past service cost – non-vested:

- Amortization method: straight line.
- Amortization periods: remaining service years of each employee.

The amount recognized in balance sheets and income statement for period of March 31, 2012 and 2011 is as follow:

| | 2012 USD | 2011 USD |
|---|---|---|
| Present Value Obligation | **170,119** | 99,334 |
| Unrecognized Actuarial Losses | **–** | 17,254 |
| Liability in Balance Sheets | **170,119** | 116,588 |
| Unrecognized Service Cost: | | |
| Current Service Cost | **58,118** | 25,596 |
| Interest Cost | **9,077** | 9,088 |
| **Net Expense Charged in Comprehensive Income** | **67,195** | 34,684 |

Movements in liability recognized in balance sheets are as follows:

| | 2012 USD | 2011 USD |
|---|---|---|
| Beginning of the Year | **116,588** | 81,904 |
| Charged to Comprehensive Income | **67,195** | 34,684 |
| Actual Benefit Payment | **(13,664)** | – |
| End of the Year | **170,119** | 116,588 |

17. **Capital Share and Dividend**

a. Based on Circular Resolutions of the Shareholders of PT Norwest Industry as stipulated on notarial deed No. 52 of Popie Savitri Martosuhardjo Pharmanto, SH, notary in Jakarta, dated March 31, 2011, Global Textiles Group Limited sells its shares to Pearl Global (HK) Limited. The change in capital structure effectively on April 1, 2011 and has been approved by the Ministry of Law and Human Rights of the Republic of Indonesia through its letter No. AHU-AH.01.10-13264, dated May 4, 2011.

The compositions of shareholders' as of March 31, 2012 and 2011 are as follows:

**2012**

| **Shareholders** | **Shares Issued – Number of Shares** | **%** | **Issued and Fully Paid Capital USD** |
|---|---|---|---|
| Pearl Global (HK) Limited | **149,998** | 99.87 | 1,499,980 |
| Mr. Pulkit Seth | **200** | 0.13 | 2,000 |
| **Total** | **150,198** | **100.00** | **1,501,980** |

**2011**

| **Shareholders** | **Shares Issued – Number of Shares** | **%** | **Issued and Fully Paid Capital USD** |
|---|---|---|---|
| Global Textiles Group Limited | 149,998 | 99.87 | 1,499,980 |
| Mr. Pallak Seth | 100 | 0.07 | 1,000 |
| Mr. Pulkit Seth | 100 | 0.07 | 1,000 |
| **Total** | **150,198** | **100.00** | **1,501,980** |

b. Based on Circular Resolution dated September 15, 2011, The Company declared dividend amounting to USD 400,000. The dividend has been fully paid on October 14, 2011.

**18. Revenues**

| | 2012 USD | 2011 USD |
|---|---|---|
| Export Sales - Net | | |
| Third Parties | **21,831,903** | 19,368,344 |
| **Total** | **21,831,903** | 19,368,344 |

This account represents export sales of 256,069 dozens amounted to USD 21,831,903 as of March 31, 2012 and 243,035 dozens amounted to USD 19,368,344 as of March 31, 2011.

**19. Cost of Goods Sold**

| | 2012 USD | 2011 USD |
|---|---|---|
| Material | **13,691,186** | 12,143,271 |
| Labor | **3,994,457** | 3,933,551 |
| Overhead Cost: | | |
| Depreciation (Note 10) | **236,196** | 268,689 |
| Factory Rent | **209,446** | 204,370 |
| Power and Fuel | **205,266** | 203,344 |
| Spare Parts | **176,872** | 166,519 |
| Freight Cost | **155,712** | 169,145 |
| Maintenance | **18,069** | 25,538 |
| **Total** | **18,687,204** | 17,114,427 |

The Company carries out production activity based on order received from customers. All finished goods inventory are directly delivered to customer when finished. Therefore, cost of goods sold represents cost of finished goods that already shipped to customers during the period.

**20. General and Administrative and Selling Expenses**

| | 2012 USD | 2011 USD |
|---|---|---|
| **General and Administrative Expenses** | | |
| Salary | **1,177,745** | 1,110,248 |
| Bonus and Allowance | **378,876** | 285,309 |
| Import and Export | **230,611** | 347,519 |
| Telecommunication | **148,238** | 177,457 |
| Depreciation (Note 10) | **148,209** | 115,921 |
| Bank Interest and Bank Charges | **147,040** | 157,977 |
| Transportation | **76,612** | 73,921 |
| Employee Benefits | **67,195** | 34,684 |
| Rent Office & Machine | **62,611** | 53,267 |
| SAP Expenses | **57,464** | – |
| Office Maintenance | **54,123** | 40,637 |
| Work Permit | **35,600** | 47,894 |
| Printing and Stationary | **31,601** | 30,462 |
| Insurance | **30,760** | 25,086 |
| Tax and Duties | **28,848** | 26,188 |
| Legal and Professional Fee | **25,537** | 26,344 |
| Employee Welfare | **25,315** | 14,458 |
| Water | **19,011** | 19,869 |
| Inspection Charges | **13,866** | 900 |
| Recruitment and Training | **12,698** | 22,132 |
| Travelling | **11,891** | 23,412 |
| Office Consumable | **6,149** | 5,697 |
| Conveyance | **2,673** | – |
| Others (below USD 10,000) | **10,470** | 26,029 |
| **Sub Total** | **2,803,143** | 2,665,411 |

| | 2012 USD | 2011 USD |
|---|---|---|
| **Selling Expenses** | | |
| Product Development and Samples | **229,611** | 92,769 |
| Entertainment | **15,895** | 22,461 |
| Travelling Overseas | **21,245** | 18,576 |
| Marketing | **7,011** | 6,851 |
| **Sub Total** | **273,762** | 140,657 |
| **Total** | **3,076,905** | 2,806,068 |

**21. Related Parties Transactions**

| Related Parties | Relation | Transaction |
|---|---|---|
| Pearl Global Limited | Affiliated Company | Sales of Product and Purchases Material |

Details item related to transactions with related parties:

| | 2012 USD | 2011 USD | 2012 | 2011 |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Other Receivables: | **61,510** | 40,902 | **1%** | 1% |

The percentage above represents comparison with the total assets.

**22. Summary of Significant Differences between Company's Accounting Principles Using the Indonesian Financial Accounting Standards (FAS) and the International Financial Reporting Standard (IFRS)**

The financial statements of the Company are prepared and presented in accordance with the Indonesian FAS which differs in certain respects from IFRS. These differences between the Indonesian FAS and IFRS are described below and presented in the accompanying reconciliation of net income and certain balance sheet items.

***Employee Benefits***

Under the Indonesian FAS, a method of accounting for employee benefits is substantially consistent with the requirement of IFRS. However, under IFRS, the transitional liability of defined benefit plans for the first implementation of this standard should be recognized immediately in the statement of income or as an expense on a straight-line basis over up to five years if the transitional liability is more than the liability which had previously been recognized. Under the Indonesian FAS, the first implementation of this standard is treated as a change in accounting policy and should be applied retrospectively. The first implementation was conducted in 2004.

***Financial Receivables and Other Receivables***

Under the Indonesian FAS, receivables are stated at gross less allowance for doubtful accounts (estimated realizable value). Under IFRS, receivables should be stated at amortized cost less provision for impairment, not estimated realizable value and the provision should reflect both the likelihood of being paid and the timing of the cash flows.

**23. Reconciliation of Net Income and Equity Determined under the Indonesia FAS and IFRS**

The following is a summary of the significant adjustments to net income (loss) for the year ended March 31, 2012 and 2011 and to equity as of March 31, 2012 and 2011 which would be required if IFRS had been applied instead of Indonesian GAAP in the financial statements.

| | 2012 USD | 2011 USD |
|---|---|---|
| Net income (loss) as reported in the statements of income | **329,965** | 308,663 |
| Item increasing (decreasing) reported net income (loss) | | |
| Fair value loss from other financial receivables | **(9,930)** | (9,652) |
| Net decrease in reported net income | **(9,930)** | (9,652) |
| **Approximate net income in accordance with IFRS** | **320,035** | 299,011 |

| | 2012 USD | 2011 USD |
|---|---|---|
| Equity reported in the balance sheets | **3,962,542** | 4,032,577 |
| Item increasing (decreasing) reported in equity | | |
| Fair value loss from other financial receivables | **(37,827)** | (27,897) |
| Net decrease in equity | **(37,827)** | (27,897) |
| **Approximate equity in accordance to IFRS** | **3,924,715** | 4,004,680 |

As a result of the IFRS adjustment to net income and equity, the following tables presents the approximate balance sheets, statements of income, changes in equity and cash flows as of March 31, 2012 and 2011 as determined under IFRS:

PT Norwest Industry

a. **Balance Sheet**

| ASSETS | 2012 USD | 2011 USD |
|---|---|---|
| **Current Assets** | | |
| Cash and Cash Equivalent | **665,773** | 509,079 |
| Accounts Receivable | | |
| Third Parties | **2,399,432** | 3,024,169 |
| Related Parties | **–** | – |
| Other Receivables | | |
| Third Parties | **305** | 521 |
| Related Parties | **61,510** | 40,902 |
| Inventories | **921,234** | 1,946,475 |
| Advance to Suppliers | **1,326,436** | 865,710 |
| Prepaid Taxes | **261,100** | 149,194 |
| Prepaid Expenses | **82,378** | 86,233 |
| Other Current Asset | **–** | 17,138 |
| Total Current Assets | **5,718,168** | 6,639,421 |
| **Non Current Assets** | | |
| Deferred Tax Asset | **173,780** | 246,021 |
| Fixed Assets | | |
| *(Net of accumulated depreciation of USD 2,432,287 and USD 2,048,443 as of March 31, 2012 and 2011)* | **832,705** | 1,051,981 |
| Refundable Deposits | **61,475** | 70,707 |
| Total Non Current Assets | **1,067,960** | 1,368,709 |
| **TOTAL ASSETS** | **6,786,128** | 8,008,130 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Bank Loan | **1,284,525** | 2,525,495 |
| Account Payables | **893,496** | 881,646 |
| Other Payables | **13,364** | 13,062 |
| Taxes Payable | **57,297** | 9,240 |
| Accrued Expenses | **442,612** | 442,086 |
| Advance from Buyer | **–** | 15,333 |
| Total Current Liabilities | **2,691,294** | 3,886,862 |
| **Non-Current Liabilities** | | |
| Employee Benefits Obligation | **170,119** | 116,588 |
| Total Non-Current Liabilities | **170,119** | 116,588 |
| **Total Liabilities** | **2,861,413** | 4,003,450 |
| **Equity** | | |
| Capital Stock - Par Value USD 10 per Share Authorised - 200,000 Shares, Issued and Fully Paid - 150,198 Shares as of March 31, 2012 and 2011. | **1,501,980** | 1,501,980 |
| Additional Paid-in Capital | **1,980** | 1,980 |
| Retained Earnings | **2,420,755** | 2,500,720 |
| Total Equity | **3,924,715** | 4,004,680 |
| **TOTAL LIABILITIES AND EQUITY** | **6,786,128** | 8,008,130 |

b. **Statement of Comprehensive Income**

| | 2012 USD | 2011 USD |
|---|---|---|
| **REVENUES** | **21,831,903** | 19,368,344 |
| **COST OF GOODS SOLD** | **18,687,204** | 17,114,427 |
| **GROSS PROFIT** | **3,144,699** | 2,253,917 |
| Claim from (to Suppliers) -Net | **80,211** | 269,645 |
| Gain on Disposal of Fixed Assets | **–** | 17,625 |
| Gain (Loss) on Foreign Exchange -Net | **127,806** | 393,707 |
| Miscellaneous Income -Net | **316,835** | 301,807 |
| Selling Expenses | **(273,762)** | (140,657) |
| General and Administrative Expenses | **(2,803,143)** | (2,665,411) |
| **INCOME BEFORE TAX** | **592,646** | 430,633 |
| **INCOME TAX BENEFIT (EXPENSES)** | | |
| Current Tax | **(200,370)** | (174,004) |
| Deferred Tax | **(72,241)** | 42,382 |
| Total Income Tax Expenses | **(272,611)** | (131,622) |
| **NET INCOME** | **320,035** | 299,011 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Actuarial Loss | **–** | – |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **320,035** | 299,011 |

Reconciliation between Indonesia GAAP with IFRS for above statements of income is as follow:

| | 2012 USD | 2011 USD |
|---|---|---|
| **Net Income as reported in the Statements of Comprehensive Income** | 329,965 | 308,663 |
| **Item decreasing reported net income :** | | |
| Fair value loss from other financial receivables | (9,930) | (9,652) |
| Net decrease in reported net loss | (9,930) | (9,652) |
| **Approximate Net Income in accordance with IFRS** | 320,035 | 299,011 |

c. **Statements of Changes in Equity**

| | Capital Stock USD | Additional Paid-in Capital USD | Retained Earnings USD | Total Equity USD |
|---|---|---|---|---|
| **Balance as of March 31, 2010** | **1,501,980** | **1,980** | **2,201,709** | **3,705,669** |
| Net Income | – | – | 299,011 | 299,011 |
| **Balance as of March 31, 2011** | **1,501,980** | **1,980** | **2,500,720** | **4,004,680** |
| Net Income | – | – | 320,035 | 320,035 |
| Dividend | – | – | (400,000) | (400,000) |
| **Balance as of March 31, 2012** | **1,501,980** | **1,980** | **2,420,755** | **3,924,715** |

d. **Statements of Cash Flows**

| | 2012 USD | 2011 USD |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income Before Income Tax and Interest Expenses | **711,789** | 570,365 |
| Adjustments for: | | |
| Depreciation | **384,405** | 384,610 |
| Proceeds from Capital Subsidy – | | |
| Gain on Disposals of Property and Equipment | **–** | (17,625) |
| Employee Benefits Obligation | **67,195** | 34,684 |
| Miscellaneous Expenses | **37,827** | 27,897 |
| Operating Income Before Changes in Working Capital | **1,201,216** | 999,931 |
| Changes in Assets and Liabilities: | | |
| Account and Other Receivables | **604,345** | (45,934) |
| Inventories | **1,025,241** | (1,412,562) |
| Advance to Suppliers and Prepayments | **(485,868)** | (4,680) |
| Other Current Assets | **17,138** | 1,156 |
| Account and Other Payables | **12,152** | 505,174 |
| Accrued Expenses | **526** | 84,773 |
| Taxes Payables Other than Corporate Income Tax | **(108,405)** | (2,289) |
| Cash Generated from Operations | **2,266,345** | 125,569 |
| Interest Paid | **(147,040)** | (157,737) |
| Income Tax Paid | **(155,814)** | (174,124) |
| Net Cash Flows Provided by (Used in) Operating Activities | **1,963,491** | (206,292) |

| | 2012 USD | 2011 USD |
|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of Property and Equipment | **(165,129)** | (163,601) |
| Proceeds from Sale of Property and Equipment | **–** | 66,441 |
| Additional Refundable Deposits | **(698)** | (2,085) |
| Net Cash Flows Used in Investing Activities | **(165,827)** | (99,245) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from (Repayment of) Bank Loan - Net | **(1,240,970)** | 650,089 |
| Dividends Payment | **(400,000)** | – |
| Net Cash Flows Provided by (Used In) Financing Activities | **(1,640,970)** | 650,089 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **156,694** | 344,552 |
| **CASH AND CASH EQUIVALENTS - AT THE BEGINNING OF THE YEAR** | **509,079** | 164,527 |
| **CASH AND CASH EQUIVALENTS - AT THE END OF THE YEAR** | **665,773** | 509,079 |
| **Cash and Cash Equivalents consist of:** | | |
| Cash on Hand | **18,739** | 29,973 |
| Cash in Banks | **647,034** | 456,548 |
| Deposits | **–** | 22,558 |
| **TOTAL** | **665,773** | 509,079 |

**24. Additional Disclosures Required By IFRS**

**a. Financial Risk Management**

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

– Foreign exchange risk: the Company exposed to foreign exchange risk from various currency exposures primarily Indonesian Rupiah. The Company has not hedged its exposure to foreign currency risk in connection with the recording currency except for salaries payment, factory overhead and material purchase.

– Credit risk: the Company has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure to any customers.

– Interest rate risk: the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets.

**b. Critical Accounting Estimates and Assumptions**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

– Employee benefits

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality bonds that are denominated in the currency in which the benefits will be paid (Rupiah currency), and that have maturity approximating the terms of the related post employment benefit liability.

– Income taxes

The Company is subject to income tax in Indonesian tax jurisdictions. Significant judgment is required in determining local provision for income tax, among other, non deductible expenses. The Company recognises provision for income tax based on self assessment. Where the final tax outcome as a result of tax audit is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Prepaid taxes are impaired as the carrying amounts may not be recoverable.

– Fair value estimation

The Company determines that the face values less any estimated credit adjustments for loans and receivables with a maturity of less than one year are assumed to approximate their fair values.

a. Trade and Other Receivables

The fair values of trade receivables and other receivables are as follows:

| | 2012 USD | 2011 USD |
|---|---|---|
| Accounts Receivable | **2,399,432** | 3,024,169 |
| Other Receivable-Third Parties | **305** | 521 |
| Other Receivable-Related Parties | **61,510** | 40,902 |
| Other Financial Receivables-Refundable Deposits | **61,475** | 70,707 |
| **Total** | **2,522,722** | 3,136,299 |

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money or goods directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The fair values are based on discounted cash flows using a rate based on the borrowings rate of 10%.

The nominal value less estimated credit adjustments of trade receivables are assumed to approximate their fair values.

There are no concentrations of credit risk with respect to trade receivables, as the Company has a number of customers, internationally dispersed.

No loss for impairment of its trade receivables was recognized for the year ended March 31, 2012 and 2011.

b. Bank Loan

The carrying amount of short-term bank loan approximates their fair value.

c. Trade and Other Payables

The carrying amount of trade and other payables approximates their fair value which is based on an estimate of the recoverable amount. Recoverable amount is determined by calculating the present value of expected future cash outflows.

**25. Revised Statement of Financial Accounting Standards**

The Indonesian Institute of Accountants (IAI) released several new Statements of Financial Accounting Standards

(SFAS), which will be effective on or after January 1, 2012, among other, as follows:

a. SFAS No. 10 (Revised 2010) “The Effects of Changes in Foreign Exchange Rate”.
b. SFAS No. 18 (Revised 2010) “Accounting and Reporting by Retirement Benefit Plans”.
c. SFAS No. 24 (Revised 2010) “Employee Benefits”
d. SFAS No. 34 (Revised 2010) “Construction Contracts”.
e. SFAS No. 46 (Revised 2010) “Income Taxes”.
f. SFAS No. 50 (Revised 2010) “Financial Instruments: Presentation”.
g. SFAS No. 53 (Revised 2010) “Share-based Payment”
h. SFAS No. 56 (Revised 2010) “Earnings per Share”
i. SFAS No. 60 “Financial Instrument: Disclosures”.
j. SFAS No. 61 “Accounting for Government Grants and Disclosure of Government Assistance”.
k. ISAK No. 13 “Hedges of Net Investment in Foreign Operations”.
l. ISAK No. 15 “The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction”.
m. ISAK No. 18 “Government Assistance – No Specific Relation to Operating Activities”.
n. ISAK No. 20 “Income Taxes – Changes in Tax Status of an Entity or its Shareholders”.

The management is presently evaluating and the possible impact of the adoption of these standards which will be applied in 2012 on its financial statements.

**26. Responsibility of the Financial Statements**

The management of the Company is responsible for the preparation of the financial statements completed on April 26, 2012.

## DIRECTORS' REPORT

The directors are pleased to present their report together with the audited financial statements of Multinational Textile Group Limited (the "Company") for the year ended 31 March 2012.

**Principal activity**

The principal activity of the Company is the holding of investments.

**Results and dividend**

The results for the year are shown on page 6.

The directors do not recommend the payment of a dividend for the year under review (2011 : NIL).

**Statement of Directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial period giving a true and fair view of the state of affairs of the Company and of the profit or loss of the Company. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern on the year ahead.

**By order of the Board of Directors**

Sd/-
**Director**
Date: 25 May 2012

## STATEMENT FROM SECRETARY

*for the year ended 31 March 2012*

**Statement from secretary under Section 166 (d) of the Companies Act 2001**

In accordance with section 166 (d) of the Companies Act 2001, we certify that to the best of our knowledge and belief, the Company has filed with the Registrar of Companies, all such returns as are required of the company under the Companies Act 2001.

Sd/-

For and on behalf of **KROSS BORDER CORPORATE SERVICES LIMITED**

Company Secretary

Date: 25 May 2012

## AUDITORS' REPORT to the shareholders of Multinational Textile Group Limited

**Report on the Financial Statements**

We have audited the financial statements of Multinational Textile Group limited, which comprise the statement of financial position at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

**Other matter**

This report, including the opinion, has been prepared for and only for the Company's shareholders, as a body, in accordance with section 205 of the Mauritius Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act 2001, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements on pages 6 to 28 give a true and fair view of the financial position of the Company at 31 March 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Mauritius Companies Act 2001.

**Report on Other Legal and Regulatory Requirements**

***Companies Act 2001***

We have no relationship with or interests in the Company other than in our capacity as auditors.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the company as far as it appears from our examination of those records.

Sd/-

**Lancasters,**
Chartered Accountants
14, Lancaster Court
Lavoquer street
Port Louis
Mauritius
Date: 25 May 2012

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | Note | 2012 USD | 2011 USD |
|---|---|---|---|
| Revenue | 7 | **4,838,645** | 2,333,411 |
| Expenses | | **(4,774,234)** | (2,197,333) |
| **Profit from operating activities** | | **64,411** | 136,078 |
| Finance income | 8 | **205,197** | 158,308 |
| Finance costs | 8 | **(102,518)** | (212,400) |
| Net finance income/(cost) | 8 | **102,679** | (54,092) |
| **Profit before taxation** | | **167,090** | 81,986 |
| Taxation | 9 | **–** | – |
| **Profit for the year** | | **167,090** | 81,986 |
| Other comprehensive income | | **–** | – |
| **Total comprehensive income for the year** | | **167,090** | 81,986 |

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

| | Note | 2012 USD | 2011 USD |
|---|---|---|---|
| **Assets** | | | |
| Investments | 10 | **17,471,426** | 17,005,407 |
| Receivables | 11 | **4,444,302** | 7,514,343 |
| **Total non-current assets** | | **21,915,728** | 24,519,750 |
| Other receivables | 12 | **1,836,425** | 1,064,694 |
| Cash and cash equivalents | | **511,739** | 268,085 |
| **Total current assets** | | **2,348,164** | 1,332,779 |
| **Total assets** | | **24,263,892** | 25,852,529 |
| **Equity** | | | |
| Share capital | 13 | **21,948,270** | 21,948,270 |
| Revenue deficit | | **(937,389)** | (1,104,479) |
| **Total equity** | | **21,010,881** | 20,843,791 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Loan from holding company | 14 | **–** | 3,660,000 |
| **Current liabilities** | | | |
| Other payables | 15 | **3,253,011** | 1,348,738 |
| **Total current liabilities** | | **3,253,011** | 1,348,738 |
| **Total liabilities** | | **3,253,011** | 5,008,738 |
| **Total equity and liabilities** | | **24,263,892** | 25,852,529 |

Approved by the Board on 25 May 2012

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

| | Share capital USD | Share application monies USD | Revenue deficit USD | Total USD |
|---|---|---|---|---|
| Balance at 01 April 2010 | 20,071,170 | 1,877,100 | (1,186,465) | 20,761,805 |
| **Contributions by and distributions to owners of the company** | | | | |
| Issue of ordinary shares | 1,877,100 | (1,877,100) | – | – |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | – | – | 81,986 | 81,986 |
| Balance at 31 March 2011 | 21,948,270 | – | (1,104,479) | 20,843,791 |
| **Total comprehensive loss for the year** | | | | |
| Profit for the year | – | – | 167,090 | 167,090 |
| **Balance at 31 March 2012** | **21,948,270** | **–** | **(937,389)** | **21,010,881** |

The notes on pages 10 to 28 form part of these financial statements

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 USD | 2011 USD |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | **167,090** | 81,986 |
| *Adjustments for:* | | |
| Dividend received | **(340,000)** | – |
| Interest received | **(205,197)** | (158,025) |
| Interest on loan | **95,491** | 212,400 |
| Gain on disposal of investment | **10,098** | – |
| | **(272,518)** | 136,361 |
| Change in receivables | **–** | (361,803) |
| Change in other receivables | **(771,731)** | 153,528 |
| Change in other payables | **1,947,230** | 279,814 |
| **Net cash from operating activities** | **902,981** | 207,900 |
| **Cash flows from investing activities** | | |
| Interest received | **205,197** | 158,025 |
| Disposal of investment | **243,235** | – |
| Acquisition of investments | **(709,254)** | (25,316) |
| Dividend received | **340,000** | – |
| **Net cash from investing activities** | **79,178** | 132,709 |
| **Cash flows from financing activities** | | |
| Repayment of loan by subsidiaries | **2,010,107** | 160,000 |
| Buy back | **1,865,525** | – |
| Repayment of loan by related company | **173,714** | 16,001 |
| Loans advanced to related company | **(500,000)** | (120,000) |
| Loans advanced to subsidiaries | **(592,360)** | (3,400) |
| Repayment to Holding Company | **(3,600,000)** | (26,010) |
| Interest paid | **(95,491)** | (212,400) |
| **Net cash used in financing activities** | **(738,505)** | (185,809) |
| Net movement in cash and cash equivalents | **243,654** | 154,800 |
| Cash and cash equivalents at 01 April | **268,085** | 113,285 |
| **Cash and cash equivalents at 31 March** | **511,739** | 268,085 |

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

**1. General information**

The Company was incorporated as a private limited company on 28 March 2006 and was granted a Category 1 Global Business Licence on 29 March 2006. The principal activity of the Company is the holding of investments.

The Company, as a holder of a Category 1 Global Business Licence under the Companies Act 2001 and the Financial Services Act 2007 is required to carry on its business in a currency other than the Mauritian rupee. Since the Company operates in an international environment and conducts most of its transactions in foreign currencies the Company has chosen to retain the United States Dollar (USD) as its reporting currency.

2. **Basis of preparation**

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements.

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) *Basis of measurement*

The financial statements have been prepared on a historical cost basis except that financial assets and financial liabilities are fair valued.

(c) *Functional currency and presentation currency*

The financial statements are presented in United States Dollar (USD) which is the Company's functional currency and presentation currency.

(d) *Use of the estimates and judgement*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There were no critical judgements made in applying accounting policies that may have significant effect on the amount recognised in the financial statements.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 9 - Utilisation of tax losses

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

*Revenue recognition*

Revenue is recognised in the statement of comprehensive income as follows:

- Dividend income: when the company's right to receive payment is established.
- Interest Income: as it accrues (taking into account the effective yield on the assets).
- Management fees & Professional fees income - are accounted for as it accrues.

*Taxation*

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary terms is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

*Impairment of assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis.

All impairment is recognised in the statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the statement of comprehensive income.

An impairment is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised directly in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

*Investments*

Investments in subsidiaries are classified as such where the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the entity. The investments are measured at fair value and changes therein, other than impairment and foreign exchange gains and losses are recognised directly in equity.

*Non-derivative financial assets*

Financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, held to maturity investments and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Cash and cash equivalents*

Cash and cash equivalents comprises of cash at bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

*Receivables and other receivables*

Receivables and other receivables are stated at cost less impairment

*Non-derivative financial liabilities*

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loan from holding company and other payables.

*Other payables*

Other payables are recognised at fair value, net of transaction costs incurred. Other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

*Loan from holding company*

Loan from holding company is recognised initially at fair value, net of transaction costs incurred. Loan from holding company is subsequently carried at amortised cost: Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period ofthe borrowings using the effective interest method.

*Share capital*

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Related parties*

Related parties may be individuals or other entities where the individual or other entities has the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in governing the financial and operating policies, or vice versa, or where the Company are subject to common control of common significant influence.

*Expenses*

All expenses are recognised in the statement of comprehensive income on an accrual basis.

*Provisions*

A provision is recognised if, as a result of a past event, the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Newly effective standards, interpretations and amendments to standards and interpretations**

The newly effective standards, interpretations and amendments to standards and interpretations (collectively referred to as standards or requirements) are grouped into three parts.

**Part I** Standards that are required to be applied in annual and interim periods ended on 31 March 2012.

**Part II** Standards that are required to be applied in interim periods ended on 31 March 2012. However, these standards are not required to be applied in annual periods ended 31 March 2012, but can be early adopted unless otherwise indicated. Additional disclosures are required when a standard is early adopted.

**Part III** Standards that are not required yet to be applied in either interim or annual periods, but that can be early adopted. Additional disclosures are required when such a standard is early adopted.

The following is a summary of all of the newly effective standards, interpretations and amendments by effective date.

| Standards, amendments and interpretation | Effective date |
|---|---|
| **PART I** | |
| Classification of rights issues (amendment to IAS 32) | 01 February 2010 |
| IFRIC 19 Extinguishing financial liabilities with equity instruments | 01 July 2010 |
| Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1) | 01 July 2010 |
| Improvements to IFRSs 2010 - various standards | 01 July 2010 |
| **PART II** | |
| IAS 24 Related party disclosures (revised 2009): | 01 January 2011 |
| Prepayments of a minimum funding requirement (amendments to IFRIC 14) | 01 January 2011 |
| Improvements to IFRSs 2010 - various standards | 01 January 2011 |
| Disclosures - Transfers of financial assets (amendments to IFRS 7) | 01 July 2011 |
| Severe hyperinflation and removal of fixed dates for first-time adopters (amendments to IFRS 1) | 01 July 2011 |
| **PART III** | |
| Deferred tax: recovery of underlying assets (amendments to IAS 12) | 01 January 2012 |
| Presentation of items of other comprehensive income (amendments to IAS 1) | 01 July 2012 |
| IFRS 9 Financial instruments | 01 January 2015 |
| IFRS 10 Consolidated financial statements | 01 January 2013 |
| IFRS 11 Joint arrangements | 01 January 2013 |
| IFRS 12 Disclosure of interests in other entities | 01 January 2013 |
| IFRS 13 Fair value measurement | 01 January 2013 |
| IAS 19 Employee benefits (amended 2011) | 01 January 2013 |
| IAS 27 Separate financial statements (2011) | 01 January 2013 |
| IAS 28 Investments in associates and joint ventures (2011) | 01 January 2013 |
| IFRIC 20 Stripping costs in the production phase of a surface mine | 01 January 2013 |

**4. Determination of fair values**

The Company accounting policies and disclosures requires the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Receivables and other receivables*

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

*Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**5. Financial risk management**

*Introduction and preview*

Financial instruments carried on the statement of financial position include cash and cash equivalents, receivables, other receivables, loan from holding company and other payables. The recognition method adopted is disclosed in the individual policy statement associated with each item. The most important types of risk are market risk, credit risk and liquidity risk.

The Company's activities expose them to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Company's aims are therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews their risk management policies and systems to reflect changes in markets and emerging best practice.

*Market risk*

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Company's income or the fair value of its holdings of financial instruments.

*(i.) Interest rate risk*

The Company is not significantly exposed to interest rate risk. The income and operating cash flows are substantially independent of changes in market interest rates. The Company's only significant interest-bearing financial asset is cash and cash equivalents which are on a call account.

*(ii.) Currency risk*

All of the Company's financial liabilities are denominated in United States Dollar. Consequently, the Company is not exposed to the risk of foreign currency exchange rates.

*(iii.) Price risk*

The Company is not exposed to commodity price risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet contractual obligations, and arises from the Company's cash and cash equivalents.

The Company also limits its exposure to credit risk by dealing only with counterparties that has a good credit rating and management does not expect counter party to fail to meet its obligations.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking damage to the Company's reputation.

**6. Capital management**

The Company actively and regularly reviews and manages its capital position to maintain a balance between its liability and equity level.

The management of the Company's capital position is undertaken by the management team of the Company. The management team ensures that the Company is adequately capitalised to meet economic and regulatory requirements. Capital injections and repatriations are executed in a timely fashion, working closely with the business and infrastructure groups. The management team meets on a regular basis and manages capital by taking into account key considerations which may include business developments, regulatory requirements, profitability and market movements such as foreign exchange and interest rate.

**7. Revenue**

Revenue represents:

| | 2012 USD | 2011 USD |
|---|---|---|
| Management fee income | **2,269,299** | 1,647,465 |
| Service fees | **2,219,248** | 685,946 |
| Dividend received | **340,000** | – |
| Gain on disposal of investment | **10,098** | – |
| | **4,838,645** | 2,333,411 |

**8. Net Finance costs**

| | 2012 USD | 2011 USD |
|---|---|---|
| ***Finance Income*** | | |
| Interest Income | **205,197** | 158,025 |
| Gain on Foreign exchange | **–** | 283 |
| | **205,197** | 158,308 |
| ***Finance Costs*** | | |
| Interest on Borrowings | **95,491** | 212,400 |
| Loss on Foreign exchange | **7,027** | – |
| | 102,518 | 212,400 |
| Net finance income/(costs) | **102,679** | (54,092) |

**9. Taxation**

The Company is subject to income tax in Mauritius at the rate of 15%. It is however, entitled to a tax credit equivalent to the higher of the foreign tax paid and 80% of the Mauritian tax on its foreign source income.

The directors have, in accordance with the Company's accounting policy, not recognised a deferred tax asset.

*Recognised in statement of comprehensive income*

| | 2012 USD | 2011 USD |
|---|---|---|
| Current year income tax | **–** | – |

A reconciliation of the actual income tax expense based on accounting loss and actual income tax expense is as follows:

*Reconciliation of effective taxation*

| | 2012 USD | 2011 USD |
|---|---|---|
| Profit before taxation | **167,090** | 81,986 |
| Income tax at 15% | **25,064** | 12,298 |
| Exempt income | **(1,515)** | – |
| Foreign tax credit | **(18,839)** | (9,838) |
| Deferred tax assets not recognised | **(4,710)** | (2,460) |
| | **–** | – |

**10. Investments**

Investments consist of unquoted shares in subsidiaries and other investment.

**Investment in subsidiaries**

| | 2012 USD | 2011 USD |
|---|---|---|
| *Cost* | | |
| At 01 April | **16,762,172** | 16,736,856 |
| Additions during the year | **388,654** | 26,601 |
| Disposal during the year | **–** | (1,285) |
| At 31 March | **17,150,826** | 16,762,172 |

***Other investment***

| | 2012 USD | 2011 USD |
|---|---|---|
| Cost | | |
| At 01 April | **243,235** | 243,235 |
| Additions during the year | **320,600** | – |
| Disposal during the year | **(243,235)** | – |
| At 31 March | **320,600** | 243,235 |
| **Total cost of investment** | **17,471,426** | 17,005,407 |

| *Name of company* | *Type of shares* | *Number of shares* | ***2012 % held*** | *2011 % held* | *Country of incorporation* |
|---|---|---|---|---|---|
| ***Subsidiaries*** | | | | | |
| Global Textiles Group Limited | Equity | 5,771,556 | 100% | 100% | Mauritius |
| SACB Holdings Limited | Equity | 25,500 | 51% | – | Mauritius |
| Norwest Industries Limited | Equity | 1,020,000 | 85% | 85% | Hong Kong |
| Zamira Fashions Limited | Equity | 167,500 | 67% | 67% | Hong Kong |
| PG Group Limited | Equity | 510,000 | 51% | 51% | Hong Kong |
| Simple Approach Ltd | Equity | 187,500 | 75% | 75% | Hong Kong |
| Nor Delhi Manufacturing Limited | Equity | 2,000,000 | 100% | 100% | Hong Kong |
| Casa Forma Limited | Equity | 250,000 | 100% | – | United Kingdom |
| Nahata Ltd | Equity | 1 | 100% | – | Mauritius |
| Mahidhulu Investments Limited | Equity | 1 | 100% | – | Mauritius |
| Propur Investments Limited | Equity | 1 | 100% | – | Mauritius |
| ***Other investments*** | | | | | |
| Juhu Exchange Limited | Preference | 200,000 | 2.38% | – | Mauritius |

At the reporting date, the directors have reviewed the carrying amounts of the investments in subsidiaries and considered that no provision for impairment is required for the year under review.

**11. Receivables**

| | 2012 USD | 2011 USD |
|---|---|---|
| Loan to subsidiaries | **2,211,427** | 5,607,754 |
| Loan to related parties | **2,230,000** | 1,903,714 |
| Other receivable | **2,875** | 2,875 |
| | **4,444,302** | 7,514,343 |

**12. Other receivables**

| | 2012 USD | 2011 USD |
|---|---|---|
| Professional fees receivable | **591,410** | – |
| Other receivables from related parties | **570,915** | 521,127 |
| Interest receivable | **390,753** | 301,070 |
| Management fees receivable | **262,895** | 230,308 |
| Other receivables from subsidiaries | **15,982** | 8,180 |
| Prepaid expenses | **4,470** | 4,009 |
| | **1,836,425** | 1,064,694 |

**13. Share capital**

| | 2012 USD | 2011 USD |
|---|---|---|
| *Stated capital* | | |
| 20,071,170 ordinary shares of USD 1 each | **21,948,270** | 20,071,170 |
| Issue of 1,877,100 ordinary shares of USD 1 each during the year | **–** | 1,877,100 |
| | **21,948,270** | 21,948,270 |

All shares in issue are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**14. Loan from holding company**

| | 2012 USD | 2011 USD |
|---|---|---|
| Unsecured, interest free loan with no fixed repayment terms | **–** | 3,660,000 |

**15. Other payables**

| | 2012 USD | 2011 USD |
|---|---|---|
| Other payable to subsidiaries | **1,978,329** | – |
| Loan payable to related party | **751,736** | 564,375 |
| Management fees payable | **416,608** | 322,033 |
| Consultancy fees payable | **45,321** | 60,000 |
| Non-trade payables and accrued expenses | **40,945** | 26,470 |
| Interest on loan | **20,072** | 375,860 |
| | **3,253,011** | 1,348,738 |

**16. Related party transactions**

During the year under review, the Company entered into the following related party transactions.

| *Name of related companies:* | *Nature* | 2012 USD | 2011 USD |
|---|---|---|---|
| Global Textiles Group Limited | Loan repaid/Loan granted | **–** | (4,900) |
| Superb Mind Holdings Ltd | Advances given | **–** | 45,000 |
| Nor India Manufacturing Limited | Amount given | **–** | 1,772 |
| Nor India Manufacturing Limited | Amount repaid | **(1,772)** | – |
| Spring Near East Manufacturing Ltd | Amount given | **–** | 1,772 |
| Spring Near East Manufacturing Ltd | Amount repaid | **(1,772)** | – |
| Nor Lanka Manufacturing Limited | Advances given | **–** | 75,000 |
| Nor Lanka Manufacturing Limited | Advances repaid | **(58,714)** | (16,286) |
| Nor Lanka Manufacturing Limited | Management fees accrued | **216,669** | 45,000 |
| Nor Lanka Manufacturing Limited | Management fees repaid | **(153,334)** | – |
| Nor Lanka Manufacturing Limited | Marketing fees accrued | **1,588,981** | – |
| Nor Lanka Manufacturing Limited | Marketing fees repaid | **(997,571)** | – |
| Norwest Industries Limited | Amount given | **–** | 1,285 |
| Norwest Industries Limited | Amount repaid | **–** | (1,148) |
| Norwest Industries Limited | Loan repaid | **–** | (63,544) |
| SACB Holdings Limited | Loan transferred | **–** | 414,754 |
| SACB Holdings Limited | Loan advanced | **4,665** | – |
| JSM Trading Limited | Interest receivable | **91,000** | 91,001 |
| Premier Exim HK | Proceed on disposal | **253,333** | – |
| Premier Exim HK | Amount received | **200,000** | – |
| Frou Holdings Limited | Interest receivable | **32,727** | 34,617 |
| Global Textiles Group Limited | Interest receivable | **10,511** | 32,409 |
| Global Textiles Group Limited | Interest repaid | **(72,124)** | – |
| Poeticgem Limited | Management fees accrued | **833,216** | 398,710 |
| Poeticgem Limited | Management fees settled | **(738,641)** | (76,678) |
| Simple Approach Limited | Management fees accrued | **–** | 58,080 |
| Simple Approach Limited | Management fees settled | **–** | (40,920) |
| Zamira Fashion Ltd | Management fees accrued | **50,000** | 37,400 |
| Zamira Fashion Ltd | Management fees settled | **(25,000)** | (59,600) |
| PG Group limited | Repayment of loan | **(1,150,000)** | – |
| PG Group limited | Management fees accrued | **–** | 27,698 |
| PG Group limited | Management fees settled | **–** | (39,850) |
| Norwest Industries Limited | Management fees accrued | **1,626,000** | 1,370,650 |
| Norwest Industries Limited | Management fees settled | **1,682,000** | (1,436,650) |
| Global Textiles Group Limited | Management fees accrued | **90,000** | 29,150 |
| Global Textiles Group Limited | Management fees settled | **(120,000)** | (252,650) |
| JSM Trading Limited | Consultancy fees accrued | **2,800,000** | 1,135,000 |
| JSM Trading Limited | Consultancy fees settled | **(2,841,679)** | (1,651,042) |
| Pearl Global Industries Limited | Interest payable | **95,491** | 212,401 |
| Pearl Global Industries Limited | Interest repaid | **(451,280)** | – |
| Pearl Global HK limited | Advances given | **385,000** | – |
| Pearl Global HK limited | Interest receivable | **27,569** | – |
| Pearl Global Industries Limited | Transfer to share capital | **–** | (1,877,100) |
| Simple Approach Limited | Loan repaid | **105,000** | – |
| Pearl Global Industries Limited | Loan repaid | **(3,660,000)** | (26,010) |
| Casa Forma Limited | Loan transferred | **436,368** | – |
| Mahidhulu Investments Limited | Advances given | **4,035** | – |
| Propur Investments Limited | Advances given | **3,905** | – |
| Pallak Seth | Amount payable | **533,531** | – |
| Faiza Seth | Amount payable | **58,298** | – |
| Deepak Seth | Amount repaid | **(146,667)** | – |

| *Balances outstanding at 31 March:* | | | |
|---|---|---|---|
| Global Textiles Group Limited | Loan receivable | **–** | 2,487,351 |
| Norwest Industries Limited | Loan receivable | **–** | 305,147 |
| Frou Holdings Ltd | Loan receivable | **500,000** | 500,000 |
| PG Group limited | Loan receivable | **1,250,000** | 2,400,000 |
| JSM Trading Limited | Loan receivable | **1,300,000** | 1,300,000 |
| Frou Holdings Ltd | Interest receivable | **124,590** | 91,863 |

| *Name of related companies:* | *Nature* | 2012 USD | 2011 USD |
|---|---|---|---|
| Global Textiles Group Limited | Interest receivable | **–** | 61,613 |
| JSM Trading limited | Interest receivable | **238,595** | 147,595 |
| Superb Mind Holdings Ltd | Amount receivable | **45,000** | 45,000 |
| Nor Delhi Manufacturing Ltd | Amount receivable | **–** | 8,042 |
| Nor India Manufacturing Limited | Amount receivable | **–** | 1,772 |
| Spring Near East Manufacturing Ltd | Amount receivable | **–** | 1,772 |
| SACB Holdings Limited | Amount receivable | **420,059** | 415,394 |
| Pallas Holdings Limited | Amount receivable | **2,875** | 2,875 |
| Nor Lanka Manufacturing Limited | Amount receivable | **–** | 58,714 |
| Nor Lanka Manufacturing Limited | Management fees receivable | **108,335** | 45,000 |
| Nor Lanka Manufacturing Limited | Marketing fees receivable | **591,410** | – |
| Nor Delhi Manufacturing Limited | Loan given | **145,000** | – |
| Nor Delhi Manufacturing Limited | Loan net off | **(145,000)** | – |
| Nor Delhi Manufacturing Limited | Management fees receivable | **59,160** | – |
| Nor India Manufacturing Limited | Management fees receivable | **7,500** | – |
| Spring Near East manufacturing Limited | Management fees receivable | **7,500** | – |
| Simple Approach Limited | Management fees receivable | **–** | 43,560 |
| Zamira Fashion Ltd | Management fees receivable | **25,000** | – |
| PG Group limited | Management fees receivable | **–** | 348 |
| Norwest Industries Limited | Management fees receivable | **–** | – |
| Global Textiles Group Limited | Management fees receivable | **111,400** | 141,400 |
| Casa Forma Limited | Amount receivable | **436,368** | – |
| Poeticgem Limited | Management fees payable | **416,608** | 322,033 |
| JSM Trading Limited | Consultancy fees payable | **45,321** | 60,000 |
| Pallas Holdings Limited | Amount payable | **7,325** | 7,325 |
| Pallas Holdings Limited | Interest payable | **20,072** | 20,072 |
| Nor Delhi Manufacturing Ltd | Loan payable | **112,800** | 257,800 |
| Mahidhulu Investments Limited | Amount receivable | **4,035** | – |
| Propur Investments Limited | Amount receivable | **3,905** | – |
| Pearl Global HK limited | Loan receivable | **385,000** | – |
| Pearl Global HK limited | Interest receivable | **27,569** | – |
| Premier Exim HK | Amount receivable | **53,333** | – |
| Pearl Global Industries Limited | Loan payable | **–** | 3,660,000 |
| Pearl Global Industries Limited | Interest payable | **–** | 355,789 |
| Zamira Fashion Limited | Amount receivable | **105,000** | – |
| Pallak Seth | Amount payable | **533,531** | – |
| Faiza Seth | Amount payable | **58,298** | – |
| Deepak Seth | Amount payable | **152,583** | 299,250 |

**Compensation to key management personnel**

The company did not pay any compensation to its key management personnel during the year. (2011: nil).

**17. Financial Instruments**

**Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

| | Carrying amount 2012 USD | Fair value 2012 USD | Carrying amount 2011 USD | Fair value 2011 USD |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Investments | **320,600** | **320,600** | 243,235 | 243,235 |
| Receivables | **4,444,302** | **4,444,302** | 7,514,343 | 7,514,343 |
| Other receivables | **1,831,955** | **1,831,955** | 1,060,685 | 1,060,685 |
| Cash and cash equivalents | **511,739** | **511,739** | 268,085 | 268,085 |
| **Total Financial Assets** | **7,108,596** | **7,108,596** | 9,086,348 | 9,086,348 |
| **Financial Liabilities** | | | | |
| Loan from holding company | **–** | **–** | 3,660,000 | 3,660,000 |
| Other payables | **3,253,011** | **3,253,011** | 1,348,738 | 1,348,738 |
| **Total Financial Liabilities** | **3,253,011** | **3,253,011** | 5,008,738 | 5,008,738 |

*Overview*

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

**Credit risk**

Credit risk represents the potential loss that the Company would incur if counter parties fail to perform pursuant to the terms of their obligations to the Company. The Company limits its credit risk by carrying out transactions through companies within the group. At the reporting date, there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit risk at the reporting date was:

| | 2012 USD | 2011 USD |
|---|---|---|
| Investments | **320,600** | 243,235 |
| Receivables | **4,444,302** | 7,514,343 |
| Other receivables | **1,831,955** | 1,060,685 |
| Cash and cash equivalents | **511,739** | 268,085 |
| | **7,108,596** | 9,086,348 |

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to manage liquidity is to ensure, as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Company's reputation.

| *31 March 2012* | Within one year USD | One to five years USD |
|---|---|---|
| **Financial liabilities** | | |
| Loan from holding company | – | – |
| Other payables | **3,253,011** | – |
| **Total Financial liabilities** | **3,253,011** | – |
| | | |
| *31 March 2011* | USD | USD |
| **Financial liabilities** | | |
| Loan from holding company | – | 3,600,000 |
| Other payables | 1,348,738 | – |
| **Total Financial liabilities** | 1,348,738 | 3,600,000 |

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Currency risk**

The Company invests in stocks denominated in Great Britain Pound (GBP) and Hong Kong Dollar (HKD). Consequently, the Company is exposed to the risk that the exchange rate of the US Dollar relative to the Great Britain Pound and Hong Kong Dollar may change in a manner, which has a material effect on the reported values of the Company's assets and liabilities, which are denominated in GBP and HKD.

*Currency profile*

| | Financial assets 2012 USD | Financial liabilities 2012 USD | Financial assets 2011 USD | Financial liabilities 2011 USD |
|---|---|---|---|---|
| USD | **4,090,351** | **2,723,603** | 5,959,008 | 4,428,905 |
| GBP | **446,395** | **416,608** | 27,793 | 579,833 |
| HKD | **2,571,850** | **112,800** | 2,811,313 | – |
| | **7,108,596** | **3,253,011** | 8,798,114 | 5,008,738 |

A 10 % strengthening of USD against the following currencies at 31st March 2012 would have increased net loss before tax by USD 248,884 (2011 USD 79,839). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis in 2011.

**Sensitivity Analysis:**

| | 2012 USD | 2011 USD |
|---|---|---|
| **Currency** | | |
| GBP | **245,905** | 54,406 |
| HKD | **2,979** | 25,433 |
| **Total** | **248,884** | 79,839 |

Similarly a 10 percent weakening of the USD against the above currencies at 31st March 2012 would have had the exact reverse effect.

**18. Consolidated financial statements**

These are separate financial statements of the Company as required by International Accounting Standards (IAS) 27 and separate consolidated financial statements are prepared incorporating the assets, liabilities, income and expenses of the subsidiary companies which are available at the registered office of the Company.

**19. Holding company**

The Company is a wholly owned subsidiary of Pearl Global Industries Limited (formerly House of Pearl Fashions Ltd); a Company incorporated in India, with registered address A-3, Community Centre, Naraina Industrial Area, Phase-II, New Delhi 110028.

| | 2012 USD | 2011 USD |
|---|---|---|
| **Revenue** | | |
| Management fee income | **2,269,299** | 1,647,465 |
| Professional fee income | **2,219,248** | 685,946 |
| Dividend received | **340,000** | – |
| Gain on disposal of investment | **10,098** | – |
| | **4,838,645** | 2,333,411 |
| **Expenses** | | |
| Consultancy fees | **3,307,285** | 1,710,487 |
| Management fee | **1,181,048** | 398,710 |
| Monitoring fees | **200,000** | – |
| Accounting fee | **29,400** | 26,260 |
| Audit fee | **22,975** | 22,000 |
| Bank charges | **10,173** | 5,605 |
| Sundry expenses | **9,034** | 4,148 |
| Professional fee | **6,944** | 23,924 |
| Administration fee | **2,665** | 1,999 |
| Stamp duties | **1,970** | – |
| License fees | **1,750** | 1,750 |
| Telephone, fax and courier charges | **990** | 2,450 |
| | **4,774,234** | 2,197,333 |
| **Profit after operating activities** | **64,411** | 136,078 |
| Net finance income/(costs) | **102,679** | (54,092) |
| **Profit before taxation** | **167,090** | 81,986 |

## DIRECTORS' REPORT

The directors are pleased to present their report together with the audited financial statements of Global Textile Group Limited (the "Company") for the year ended 31 March 2012.

**Principal activity**

The principal activity of the Company is the holding of investments.

**Results and dividend**

The results for the year are shown on page 6.

The directors do not recommend the payment of a dividend for the year under review (2011: NIL).

**Statement of directors' responsibilities in respect of financial statements**

Company law requires the directors to prepare financial statements for each financial period giving a true and fair view of the state of affairs of the Company and of the statement of comprehensive income of the Company. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern on the year ahead.

**By order of the Board of Directors**

Sd/-

**Director**

Date: 25 May 2012

## SECRETARY'S CERTIFICATE FOR THE YEAR ENDED 31 MARCH 2012

**Secretary's certificate under Section 166 (d) of the Companies Act 2001**

In accordance with section 166 (d) of the Companies Act 2001, we certify that to the best of our knowledge and belief, the Company has filed with the Registrar of Companies, all such returns as are required of the Company under the Companies Act 2001.

Sd/-

For and on behalf of KROSS BORDER CORPORATE SERVICES LIMITED

Company secretary

Date: 25 May 2012

## AUDITORS' REPORT TO THE SHAREHOLDERS OF GLOBAL TEXTILES GROUP LIMITED

**Report on the Financial Statements**

We have audited the financial statements of Global Textiles Group Limited, which comprise the statement of financial position at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's shareholders, as a body, in accordance with section 205 of the Mauritius Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act 2001, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements on pages 6 to 25 give a true and fair view of the financial position of the Company at 31 March 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Mauritius Companies Act 2001.

**Report on Other Legal and Regulatory Requirements**

***Companies Act 2001***

We have no relationship with or interests in the Company other than in our capacity as auditors.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the company as far as it appears from our examination of those records.

Sd/-

**Lancasters**
Chartered Accountants
14, Lancaster Court
Lavoquer street
Port Louis
Mauritius

Date: 25 May 2012

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | 2012 USD | 2011 USD |
|---|---|---|---|
| **Revenue** | 7 | **3,139,112** | 3,156,437 |
| Expenses | | **(3,152,603)** | (3,167,913) |
| **Loss from operating activities** | | **(13,491)** | (11,476) |
| Finance income | 8 | **35,849** | 32,409 |
| Finance cost | 8 | **(10,511)** | (32,409) |
| Net finance income | 8 | **25,338** | – |
| **Profit/(loss) before taxation** | | **11,847** | (11,476) |
| Taxation | 9 | **(410)** | (3,612) |
| **Profit/(loss) for the year** | | **11,437** | (15,088) |
| Other comprehensive income | | – | – |
| **Total comprehensive income/(loss) for the year** | | **11,437** | (15,088) |

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

| | Notes | 2012 USD | 2011 USD |
|---|---|---|---|
| **Assets** | | | |
| Investments | 10 | **2,500,000** | 6,895,833 |
| Receivables | 11 | **3,519,581** | 1,654,056 |
| **Total non-current assets** | | **6,019,581** | 8,549,889 |

| | Notes | 2012 USD | 2011 USD |
|---|---|---|---|
| Other receivables | 12 | **657,546** | 620,366 |
| Cash and cash equivalents | | **9,501** | 54,468 |
| **Total current assets** | | **667,047** | 674,834 |
| **Total assets** | | **6,686,628** | 9,224,723 |
| **Equity** | | | |
| Stated capital | 13 | **5,771,556** | 5,771,556 |
| Revenue reserves | | **335,698** | 324,261 |
| **Total equity** | | **6,107,254** | 6,095,817 |
| **Non-current liabilities** | | | |
| Loan from holding company | 14 | – | 2,487,351 |
| Other payables | 15 | **578,964** | 641,555 |
| Tax payable | 9 | **410** | – |
| **Total current liabilities** | | **579,374** | 641,555 |
| **Total liabilities** | | **579,374** | 3,128,906 |
| **Total equity and liabilities** | | **6,686,628** | 9,224,723 |

Approved by the Board on 25 MAY 2012

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

| | Stated capital USD | Revenue Reserves USD | Total USD |
|---|---|---|---|
| Balance as at 01 April 2010 | 5,771,556 | 339,349 | 6,110,905 |
| **Total comprehensive loss for the year** | | | |
| Loss for the year | – | (15,088) | (15,088) |
| Balance as at 31 March 2011 | 5,771,556 | 324,261 | 6,095,817 |
| **Total comprehensive loss for the year** | | | |
| Profit for the year | – | 11,437 | 11,437 |
| **Balance as at 31 March 2012** | **5,771,556** | **335,698** | **6,107,254** |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 USD | 2011 USD |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) before taxation | **11,847** | (15,088) |
| *Adjustments for:* | | |
| Taxation | **–** | 3,612 |
| Change in other receivables | **(37,180)** | 93,071 |
| Change in other payables | **(62,591)** | (199,271) |
| **Net cash used in operations** | **(87,924)** | (117,676) |
| Tax paid | **–** | (3,612) |
| **Net cash used in operating activities** | **(87,924)** | (121,288) |
| **Cash flows from investing activities** | | |
| Proceeds from disposal of Subsidiary | **1,541,412** | |
| Proceeds from disposal of Associate | **2,854,421** | – |
| **Net cash from investing activities** | **4,395,833** | – |
| **Cash flows from financing activities** | | |
| Loan from holding company | **–** | (4,900) |
| Repayment of loan to holding company | **(2,487,351 )** | – |
| Advances to holding company | **(1,865,525)** | – |
| **Net cash used in financing activities** | **(4,352,876)** | (4,900) |
| Movement in cash and cash equivalents | **(44,967)** | (126,188) |
| Cash and cash equivalents at 01 April | **54,468** | 180,656 |
| **Cash and cash equivalents at 31 March** | **9,501** | 54,468 |

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

**1. General information**

The Company was incorporated as a private limited Company on 29 March 2006 and was granted a Category 1 Global Business Licence on 31 March 2006. The principal activity of the Company is the holding of investments.

The Company, as a holder of a Category 1 Global Business Licence under the Companies Act 2001 and the Financial Services Act 2007 is required to carry on its business in a currency other than the Mauritian rupee. Since the Company operates in an international environment and conducts most of its transactions in foreign currencies the Company has chosen to retain the United States Dollar (USD) as its reporting currency.

**2. Basis of preparation**

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements.

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) *Basis of measurement*

The financial statements have been prepared on a historical cost basis except that financial assets and financial liabilities are fair valued.

(c) *Functional currency*

The financial statements are presented in United States Dollar (USD) which is the Company's functional currency and presentation currency.

(d) *Use of estimates and judgement*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There were no critical judgements made in applying accounting policies that may have significant effect on the amount recognised in the financial statements.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 9 - Utilisation of tax losses

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

*Revenue recognition*

Revenue is recognised in the statement of comprehensive income as follows:

- Dividend income: when the company's right to receive payment is established.
- Interest Income: as it accrues (taking into account the effective yield on the assets).
- Professional fees income - are accounted for as it accrues

*Taxation*

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary terms is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

*Impairment of assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis.

All impairment is recognised in the statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the statement of comprehensive income.

An impairment is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised directly in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

*Investments*

Investments in subsidiaries are classified as such where the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the entity. The investments are measured at fair value and changes therein, other than impairment and foreign exchange gains and losses are recognised directly in equity.

*Non-derivative financial assets*

Financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, held to maturity investments and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Cash and cash equivalents*

Cash and cash equivalents comprises of cash at bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

*Receivables and other receivables*

Receivables and other receivables are stated at cost less impairment

*Non-derivative financial liabilities*

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loan from holding company and other payables.

*Other payables*

Other payables are recognised at fair value, net of transaction costs incurred. Other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

*Loan from holding company*

Loan from holding company is recognised initially at fair value, net of transaction costs incurred. Loan from holding company is subsequently carried at amortised cost: Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

*Stated capital*

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Relatedparties*

Related parties may be individuals or other entities where the individual or other entities has the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in governing the financial and operating policies, or vice versa, or where the Company are subject to common control of common significant influence.

*Expenses*

All expenses are recognised in the statement of comprehensive income on an accrual basis.

*Provisions*

A provision is recognised if, as a result of a past event, the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Newly effective standards, interpretations and amendments to standards and interpretations**

The newly effective standards, interpretations and amendments to standards and interpretations (collectively referred to as standards or requirements) are grouped into three parts.

***Part I*** Standards that are required to be applied in annual and interim periods ended on 31 March 2012.

***Part II*** Standards that are required to be applied in interim periods ended on 31 March 2012. However, these standards are not required to be applied in annual periods ended 31 March 2012, but can be early adopted unless otherwise indicated. Additional disclosures are required when a standard is early adopted.

***Part III*** Standards that are not required yet to be applied in either interim or annual periods, but that can be early adopted. Additional disclosures are required when such a standard is early adopted.

The following is a summary of all of the newly effective standards, interpretations and amendments by effective date.

| Standards, amendments and interpretation | Effective date |
|---|---|
| ***PART I*** | |
| Classification of rights issues (amendment to IAS 32) | 01 February 2010 |
| IFRIC 19 Extinguishing financial liabilities with equity instruments | 01 July 2010 |
| Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1) | 01 July 2010 |
| Improvements to IFRSs 2010 - various standards | 01 July 2010 |
| ***PART II*** | |
| IAS 24 Related party disclosures (revised 2009): | 01 January 2011 |
| Prepayments of a minimum funding requirement (amendments to IFRIC 14) | 01 January 2011 |
| Improvements to IFRSs 2010 - various standards | 01 January 2011 |
| Disclosures - Transfers of financial assets (amendments to IFRS 7) | 01 July 2011 |
| Severe hyperinflation and removal of fixed dates for first-time adopters (amendments to IFRS 1) | 01 July 2011 |
| ***PART III*** | |
| Deferred tax: recovery of underlying assets (amendments to IAS 12) | 01 January 2012 |
| Presentation of items of other comprehensive income (amendments to IAS 1) | 01 July 2012 |
| IFRS 9 Financial instruments | 01 January 2015 |
| IFRS 10 Consolidated financial statements | 01 January 2013 |
| IFRS 11 Joint arrangements | 01 January 2013 |
| IFRS 12 Disclosure of interests in other entities | 01 January 2013 |
| IFRS 13 Fair value measurement | 01 January 2013 |
| IAS 19 Employee benefits (amended 2011) | 01 January 2013 |
| IAS 27 Separate financial statements (2011) | 01 January 2013 |
| IAS 28 Investments in associates and joint ventures (2011) | 01 January 2013 |
| IFRIC 20 Stripping costs in the production phase of a surface mine | 01 January 2013 |

**4. Determination of fair values**

The Company accounting policies and disclosures requires the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Receivables and other receivables*

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

*Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**5. Financial risk management**

*Introduction and preview*

Financial instruments carried on the statement of financial position include cash and cash equivalents, receivables, other receivables, loan from holding company and other payables. The recognition method adopted is disclosed in the individual policy statement associated with each item. The most important types of risk are market risk, credit risk and liquidity risk.

The Company's activities expose them to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

The Company's aims are therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews their risk management policies and systems to reflect changes in markets and emerging best practice.

*Market risk*

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Company's income or the fair value of its holdings of financial instruments.

*(i.) Interest rate risk*

The Company is not significantly exposed to interest rate risk. The income and operating cash flows are substantially independent of changes in market interest rates. The Company's only significant interest-bearing financial asset is cash and cash equivalents which are on a call account.

*(ii.) Currency risk*

All of the Company's financial liabilities are denominated in United States Dollar. Consequently, the Company is not exposed to the risk of foreign currency exchange rates.

(iii.) Price risk

The Company is not exposed to commodity price risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet contractual obligations, and arises from the Company's cash and cash equivalents.

The Company also limits its exposure to credit risk by dealing only with counterparties that has a good credit rating and management does not expect counter party to fail to meet its obligations.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking damage to the Company's reputation.

**6. Capital management**

The Company actively and regularly reviews and manages its capital position to maintain a balance between its liability and equity level.

The management of the Company's capital position is undertaken by the management team of the Company. The management team ensures that the Company is adequately capitalised to meet economic and regulatory requirements. Capital injections and repatriations are executed in a timely fashion, working closely with the business and infrastructure groups. The management team meets on a regular basis and manages capital by taking into account key considerations which may include business developments, regulatory requirements, profitability and market movements such as foreign exchange and interest rate.

**7. Revenue**

Revenue consists of :

| | **2012 USD** | 2011 USD |
|---|---|---|
| Marketing income | **3,139,112** | 3,156,437 |

**8. Net finance income**

| | **2012 USD** | 2011 USD |
|---|---|---|
| ***Finance Income*** | | |
| Interest received on loan | **35,849** | 32,409 |
| ***Finance Costs*** | | |
| Interest paid on loan | **(10,511)** | (32,409) |
| **Net finance income** | **25,338** | - |

9. **Taxation**

The Company is subject to income tax in Mauritius at the rate of 15%. It is, however, entitled to a tax credit equivalent to the higher of the foreign tax paid and a deemed credit of 80% of the Mauritian tax on its foreign source income.

The reconciliation of the actual tax charge with the effective tax charge is as follows:

*Recognised in statement of comprehensive income*

| | **2012 USD** | 2011 USD |
|---|---|---|
| Income tax expense under provided from prior year | **410** | 3,612 |
| | **410** | 3,612 |

A reconciliation of the actual income tax expense based on accounting loss and actual income tax expense is as follows:

Reconciliation of effective taxation

| | **2012 USD** | 2011 USD |
|---|---|---|
| Profit/(loss) before taxation | **11,847** | (11,476) |
| Income tax at 15% | **1,777** | (1,721) |
| Unauthorised deductions | **–** | 219 |
| Tax credit | **(1,422)** | 1,202 |
| Deferred tax asset not recognised | **55** | 300 |
| Income tax expense underprovided from prior year | **–** | 3,612 |
| Income tax as per statement of comprehensive income | **410** | 3,612 |

10. **Investments**

Investments consist of unquoted shares

| | **2012 USD** | 2011 USD |
|---|---|---|
| *Cost* | | |
| At 01 April | **6,895,833** | 6,895,833 |
| Disposal during the year | **(4,395,833)** | – |
| **At 31 March** | **2,500,000** | 6,895,833 |

| **Name of company** | **Type of shares** | **Number of shares** | **2012 % held** | **2011 % held** | **Country of incorporation** |
|---|---|---|---|---|---|
| Poeticgem Limited | Equity | 50,000 | 100 | 100 | United Kingdom |
| House of Pearl Fashions (US) Ltd | Equity | 30 | – | 24 | USA |
| PT Norwest Industry | Equity | 149,998 | – | 99.87 | Indonesia |

At the reporting date, the directors have reviewed the carrying amounts of the investments in subsidiaries and considered that no provision for impairment is required for the year under review.

11. **Receivables**

| | **2012 USD** | 2011 USD |
|---|---|---|
| Unsecured, interest free loan to subsidiaries with no fixed repayment terms | **3,519,581** | 1,654,056 |

12. **Other receivables**

| | **2012 USD** | 2011 USD |
|---|---|---|
| Loan to related parties | **653,077** | 616,108 |
| Prepayments | **4,469** | 4,258 |
| | **657,546** | 620,366 |

13. **Stated capital**

| | **2012 USD** | 2011 USD |
|---|---|---|
| Issued and fully paid | | |
| 5,771,556 ordinary shares of USD 1 each | **5,771,556** | 5,771,556 |

All shares in issue are ful1y paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

14. **Loan from holding company**

| | **2012 USD** | 2011 USD |
|---|---|---|
| Unsecured, interest free loan with no fixed repayment terms | **–** | 2,487,351 |

15. **Other payables**

| | **2012 USD** | 2011 USD |
|---|---|---|
| Loan from related party | **350,000** | 350,000 |
| Management fees payables | **111,400** | 141,400 |
| Non-trade payables and accrued expenses | **99,489** | 132,080 |
| Advance from related company | **18,075** | 18,075 |
| Loan interests accrued | **–** | – |
| | **578,964** | 641,555 |

16. **Related party transactions**

During the year under review, the Company entered into the following related party transactions.

| | Nature | **2012 USD** | 2011 USD |
|---|---|---|---|
| *Name of related parties:* | | | |
| Multinational Textiles Group Limited | Loan payable | **–** | 4,900 |
| Multinational Textiles Group Limited | Loan repaid | **2,487,351** | – |
| Multinational Textiles Group Limited | Advances given | **1,865,525** | – |
| Multinational Textiles Group Limited | Management fees accrued | **90,000** | 223,500 |
| Multinational Textiles Group Limited | Management fees paid | **120,000** | – |
| Multinational Textiles Group Limited | Interest accrued | **26,344** | 32,045 |
| Multinational Textiles Group Limited | Interest paid | **87,957** | – |
| Norwest Industries Limited | Marketing fees accrued | **254,746** | 47,907 |
| Poeticgem Limited | Marketing fees received | **254,325** | – |
| Poeticgem Limited | Interest receivable | **35,849** | 32,045 |

| | Nature | 2012 USD | 2011 USD |
|---|---|---|---|
| *Balances outstanding at 31 March:* | | | |
| Multinational Textiles Group Limited | Loan payable | **–** | 2,487,351 |
| Multinational Textiles Group Limited | Amount receivable | **1,865,525** | – |
| Multinational Textiles Group Limited | Management fees payable | **111,400** | 141,400 |
| Multinational Textiles Group Limited | Interest payable | **–** | 61,613 |
| Pallas Holdings Limited | Interest payable | **61,047** | 61,047 |
| Pallas Holdings Limited | Loan payable | **368,575** | 368,575 |
| Norwest Industries Limited | Management fee receivable | **254,746** | 254,325 |
| Poeticgem Limited | Loan receivable | **904,056** | 904,056 |
| Poeticgem Limited | Interest receivable | **97,462** | 61,613 |
| Pearl Global (HK) Limited | Loan receivable | **750,000** | 750,000 |
| JSM Trading Limited | Loan receivable | **300,000** | 300,000 |

**Compensation to key management personnel**

The company did not pay any compensation to its key management personnel during the year. (2011: nil).

**17. Financial instruments**

**Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

| | Carrying amount 2012 USD | Fair value 2012 USD | Carrying Amount 2011 USD | Fair value 2011 USD |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Receivables | **3,519,581** | **3,519,581** | 1,654,056 | 1,654,056 |
| Other receivables | **653,077** | **653,077** | 616,108 | 616,108 |
| Cash and cash equivalents | **9,501** | **9,501** | 54,468 | 54,468 |
| **Total Financial Assets** | **4,182,159** | **4,182,159** | 2,324,632 | 2,324,632 |
| **Financial Liabilities** | | | | |
| Loan from holding company | **–** | **–** | 2,487,351 | 2,487,351 |
| Other payables | **578,964** | **578,964** | 641,555 | 641,555 |
| **Total Financial Liabilities** | **578,964** | **578,964** | 3,128,906 | 3,128,906 |

***Overview***

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

***Credit risk***

Credit risk represents the potential loss that the Company would incur if counter parties fail to perform pursuant to the terms of their obligations to the Company. The Company limits its credit risk by carrying out transactions through companies within the group. At the reporting date, there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

***Exposure to credit risk***

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit risk at the reporting date was:

| | 2012 USD | 2011 USD |
|---|---|---|
| Receivables | **3,519,581** | 1,654,056 |
| Other receivables | **653,077** | 616,108 |
| Cash and cash equivalents | **9,501** | 54,468 |
| | **4,182,159** | 2,324,632 |

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to manage liquidity is to ensure, as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Company's reputation.

The following are the company's contractual maturities of financial liabilities

| | Within One year USD | One to Five years USD |
|---|---|---|
| ***31 March 2012*** | | |
| **Financial liabilities** | | |
| Loan from holding company | **–** | **–** |
| Other payables | **578,964** | **–** |
| **Total Financial liabilities** | **578,964** | **–** |
| *31 March 2011* | | |
| **Financial liabilities** | | |
| Loan from holding company | – | 2,487,351 |
| Other payables | 641,555 | – |
| Total Financial liabilities | 641,555 | 2,487,351 |

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Currency risk**

The Company invests in stocks denominated in GBP and HKD. Consequently, the Company is exposed to the risk that the exchange rate of the USD relative to the GBP and HKD may change in a manner which has a material effect on the reported values of the Company's assets and liabilities which are denominated in GBP and HKD.

*Currency profile*

| | Financial amount 2012 USD | Financial liabilities 2012 USD | Financial amount 2011 USD | Financial liabilities 2011 USD |
|---|---|---|---|---|
| USD | **2,175,895** | **578,964** | 1,526,251 | 3,128,906 |
| GBP | **1,001,518** | **–** | 544,056 | – |
| HKD | **1,004,746** | **–** | 254,325 | – |
| | **4,182,159** | **578,964** | 2,324,632 | 3,128,906 |

***Sensitivity Analysis:***

A 10 % strengthening of USD against the following currencies at 31st March 2012 would have increased net profit before tax by USD 200,627 (2011: USD 79,839). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as in 2010.

| Currency | 2012 USD | 2011 USD |
|---|---|---|
| GBP | **100,152** | 54,406 |
| HKD | **100,475** | 25,433 |
| **Total** | **200,627** | 79,839 |

Similarly a 10% weakening of the USD against the above currencies at 31st March 2012 would have had the exact reverse effect.

**18. Capital management**

The Company's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

**19. Exemption from preparing consolidated financial statements**

The Company is a wholly owned subsidiary of Multinational Textile Group Limited and has taken advantage of paragraph 10 of International Accounting Standards (IAS 27) - 'Consolidated and Separate Financial Statements', which dispenses it from the need to present consolidated financial statements. The registered office of Multinational Textile Group Limited where the consolidated financial statements are available is St Louis Business Centre, Cnr Desroches & St Louis Streets, Port Louis, Mauritius.

**20. Holding and ultimate holding company**

The Company is a wholly owned subsidiary of Multinational Textile Group Limited, a Company incorporated in the Republic of Mauritius. The ultimate holding Company is Pearl Global Industries Limited (formerly House of Pearl Fashions Ltd) a Company incorporated in India.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 USD | 2011 USD |
|---|---|---|
| **Revenue** | | |
| Marketing income | **3,139,112** | 3,156,437 |
| **Expenses** | | |
| Consultancy fees | **2,960,694** | 3,080,056 |
| Management fees | **116,050** | 29,150 |
| Bank charges | **31,139** | 31,240 |
| Professional fees | **24,519** | 10,875 |
| Audit and accounting fees | **13,450** | 9,400 |
| Administration charges | **3,505** | 2,449 |
| Licence fees | **1,750** | 1,750 |
| Telephone, fax and courier charges | **1,000** | 560 |
| Sundries | **496** | 975 |
| Debtors written off | **–** | 1,458 |
| | **3,152,603** | 3,167,913 |
| **Loss before taxation** | **(13,491)** | (11,476) |
| Finance income | **35,849** | 32,409 |
| Finance cost | **(10,511)** | (32,409) |
| **Profit/(loss) before taxation** | **11,847** | (11,476) |

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012

The directors present their report and the audited financial statements for the year ended 31 March 2012.

**Principal activities and financial review**

The company's principal activity is the import and distribution of garments.

The results for the year and the financial position at the year end for the company were considered satisfactory by the directors who expect continued growth in the foreseeable future.

The company's key performance indicators are measured by reference to maintaining growth in revenue and net profit. Despite the current economic market conditions, the company has improved its financial results over the last year; revenue has increased by £1,622,452 (growth of 7%) over the last year whilst loss before tax in 2011 of £ 171,463 has improved to profit before tax of £757,843.

Other key financial performance indicators can be summarised as follows:

| | | 2012 | 2011 |
|---|---|---|---|
| i) | Improvement and efficiency of asset usage | **2012** | 2011 |
| | a) Average credit period for trade receivables | **143 days** | 50 days |
| | b) Stock turnover days | **21 days** | 43 days |
| ii) | Financial stability of the company | **2012** | **2011** |
| | Working capital ratio | **1.09:1** | 1.02:1 |
| | Liquidity ratio | **1.01:1** | 0.94:1 |

Average credit period for trade receivables is high because 41% of annual turnover was concentrated in the last quarter of the year. Other ratios show no major changes in the financial structure of the company which continues to maintain a satisfactory liquidity position.

**Key risks and uncertainties**

The main risks of the company are summarised below:

– *Currency risk*

Purchases of the company are mainly denominated in US dollars. As a result, the company is subject to risk of foreign currency movements. It is the company's policy to monitor this risk and to take necessary steps to minimise any adverse effects. The company enters into forward foreign exchange contracts to manage its currency risks.

– *Liquidity risk*

Liquidity risk is the risk that the company may encounter in meeting its financial obligations as they fall due. During the year, the company continued to be funded from liquid resources retained in the UK. The directors continue to monitor the company's liquidity, taking steps, wherever necessary, to ensure that financial obligations and commitments are met as and when they fall due.

– *Market risk*

Pressure on margins: As the competition amongst value retailers is increasing, profit margins are under constant pressure. However, the company is spreading its customer base from value retailers to high margin fashion retailers to counter this risk.

– *Credit risk*

Credit risk arises from trade receivables where the party fails to discharge their obligation in relation to the instrument. To minimise the risk, management have appropriate credit assessment methods in place to establish credit worthiness of new customers and monitor receivables by regularly reviewing aged receivable reports. There is no concentration of credit risk because most of the receivables are factored and the company's customer base is large and unrelated.

**Other business review**

– *Environmental policy*

The company recognises the importance of environmental responsibilities and where practical has an environmental policy in place which includes the recycling of paper and all office materials. The directors believe the nature of its activities has a minimal effect on the environment.

– *Health and safety*

The company recognises the importance of safeguarding the health, safety and welfare of its employees and has a health and safety policy in place. Regular updates are communicated to all employees.

– *Employees*

The company aims to ensure that the employees work in a safe and healthy environment. The company encourages the workforce to be involved by providing appropriate training, learning and career development programmes. It is also making information available to employees through the medium of frequent staff meetings, together with personal appraisals and feedback sessions.

**Future developments**

The business environment looks challenging due to the current economic market conditions which have an impact on the UK retail industry. Poeticgem Limited will continue to follow the plans of customer diversification and optimisation of synergies between various subsidiaries of Pearl Global Industries Limited (formerly known as House of Pearl Fashion Limited) to bring overall growth and improvement in profitability.

**Policy on the payment of creditors**

The company applies a policy of agreeing payment terms with each of its main suppliers and the company aims to abide by these terms, subject to satisfactory performances by suppliers.

At the year end, the company had 26 days (2011: 19 days) of purchases outstanding.

**Results and dividends**

The company's profit for the year after taxation was £494,358 (2011: loss of £200,022).

The directors do not recommend the payment of a dividend.

**Directors**

The following directors have held office since 1 April 2011:

Mr. Anuj Banaik
Mrs. Payel Seth
Mrs. Faiza Seth

**Directors' interest**

The directors' interests in the shares of the company were as stated below:

| | **Ordinary shares of £1 each** | |
|---|---|---|
| | **31 March 2012** | 1 April 2011 |
| Mr. Anuj Banaik | **–** | – |
| Mrs. Payel Seth | **–** | – |
| Mrs. Faiza Seth | **–** | – |

| **Charitable and political donations** | **2012** | 2011 |
|---|---|---|
| | **£** | £ |
| During the year the company made the following charitable donations: | | |
| Sainsbury Masquerade Ball | **2,640** | – |
| Peter Black Charitable Trust | **1,000** | – |
| Save the Children | **–** | 1,000 |
| Various charitable organisations for cancer research | **500** | 500 |
| Other small charitable payments | **1,928** | 950 |
| | **6,068** | 2,450 |

[a] These payments were made to various charitable organisations such as Banana Bunch and Tree of Light. The company does not make donations to political parties.

**Auditor**

UHY Hacker Young was appointed auditor to the company and in accordance with Section 485 of the Companies Act 2006, a resolution proposing that it be re-appointed as auditor will be put at a General Meeting.

**Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently:

– make judgements and estimates that are reasonable and prudent:

– state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements: and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the financial information included on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditors**

Each of the persons who is a director at the date of approval of this report confirms that:

– so far as the director is aware, there is no relevant information of which the company's auditor is unaware: and

– the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is area or that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**Responsibility statement**

Each of the persons who is a director at the date of approval of this report confirms that to the best of his or her knowledge and belief:

– the financial statements prepared in accordance with IFRSs as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and

– the directors' report includes a fair view of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that they face.

By order of the board

Sd/
**Mr. Anuj Banaik**
Director

10 May 2012

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF POETICGEM LIMITED FOR THE YEAR ENDED 31 MARCH 2012

We have audited the financial statements of Poeticgem Limited for the year ended 31 March 2012, which comprise the income statement, balance sheet, the cash flow statement, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

This report is made solely to the company 's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express and opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

**Opinion on financial statements**

In our opinion the financial statements:

– give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended:

– have been properly prepared in accordance with IFRSs as adopted by the EU and

– have been prepared in accordance with the requirements of the Companies Act 2006.

**Separate opinion in relation to IFRSs as issued by the IASB**

As explained in the accounting policies, the company has prepared financial statements that comply with IFRSs as adopted by the EU and with IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 required us to report to you if, in our opinion:

– adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us: or

– the financial statements are not in agreement with the accounting records and returns: or

– certain disclosures of directors' remuneration specified by law are not made: or

– we have not received all the information and explanations we require for our audit.

Sd/

**Vinodkumar Vadgama**
**(Senior Statutory Auditor)**

**for and on behalf of UHY Hacker Young** 10 May 2012
**Chartered Accountants**
**Statutory Auditor**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | **Year ended 31 March 2012 £** | Year ended 31 March 2011 £ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | 23,867,712 | 22,245,260 |
| Cost of revenue | | (15,133,470) | (11 ,861,196) |
| **Gross profit** | | 8,734,242 | 10,384,064 |
| Other income | 5 | 1,905,244 | 964,881 |
| Distribution costs | | (2,633,277) | (2,932,891) |
| Administrative expenses | | (7,022,009) | (8,349,954) |
| **Operation profit** | 6 | 984,200 | 66,100 |
| Finance income | 8 | 2,337 | 82,500 |
| Finance costs | 9 | (227,694) | (320,063) |
| Amounts written off investments | 10 | (1,000) | – |
| **(Loss)/profit for the year before taxation** | | 757,843 | (171,463) |
| Taxation | 11 | (263,485) | (28,559) |
| **(Loss)/profit for the financial year** | 27 | 494,358 | (200,022) |
| **Other comprehensive income** | | | |
| **Net effect of cash flow hedges** | 26 | 109,270 | 514,050 |
| **Total comprehensive income for the year** | | 603,628 | 314,028 |

None of the company's activities were discontinued in the year.

Poeticgem Limited

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

| | Notes | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|---|
| **Non current assets** | | | |
| Property, plant and equipment | 12 | **2,783 ,978** | 3,050,875 |
| Investments in subsidiaries | 13 | **8,074,489** | 8,075,487 |
| Other investments | 14 | **355,073** | 273,203 |
| Trade and other receivables | 17 | **700,202** | 636,596 |
| | | **11,913,742** | 12,036,161 |
| **Current assets** | | | |
| Inventories | 16 | **853,153** | 1,379,642 |
| Trade and other receivables | 17 | **10,418,441** | 7,936,265 |
| Other financial assets | 21 | **241,859** | 132,589 |
| Cash and cash equivalents | | **840,536** | 7,213,448 |
| | | **12,353,989** | 16,661,944 |
| **Total assets** | | **24,267,731** | 28,698,105 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **(6,430,300)** | (5,668,396) |
| Current tax liabilities | | **(256,363)** | – |
| Borrowings | 19 | **(4,650,059)** | (10,555,414) |
| Hire purchase contracts and finance leases | 20 | **(3,553)** | (48,689) |
| | | **( 11,340,275)** | ( 16,272,499) |
| **Net current assets** | | **1,013,714** | 389,445 |
| **Non current liabilities** | | | |
| Other payables | | **(26,074)** | (28,510) |
| Borrowings | 19 | **(5,461,054)** | (5,532,167) |
| Hire purchase contracts and finance leases | 20 | **–** | (40,638) |
| Deferred tax liabilities | 24 | **(350,773)** | (338,364) |
| | | **(5,837,901)** | (5,939,679) |
| **Total liabilities** | | **(17,178,176)** | (22,212,178) |
| **Net assets** | | **7,089,555** | 6,485,927 |
| **Shareholders' equity** | | | |
| Share capital | 25 | **50,000** | 50,000 |
| Other reserves | 26 | **241,859** | 132,589 |
| Retained earnings | 27 | **6,797,696** | 6,303,338 |
| **Total equity** | | **7,089,555** | 6,485,927 |

The financial statements were approved by the board of directors and authorised for issue on 10th May 2012 and were signed on its behalf by:

Sd/-
Mr Anuj Banaik
**Director**
**Company Registration No. 02608346**

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

| | Share capital £ | Other reserves £ | Retained earnings £ | Total £ |
|---|---|---|---|---|
| **Balance at 1 April 2010** | 50,000 | (381,461) | 6,503,360 | 6,171,899 |
| Total comprehensive income for the year | – | 514,050 | (200,022) | 314,028 |
| **Balance at 1 April 2011** | **50,000** | **132,589** | **6,303,338** | **6,485,927** |
| Total comprehensive income for the year | – | 109,270 | 494,358 | 603,628 |
| **Balance at 31 March 2012** | **50,000** | **241,859** | **6,797,696** | **7,089,555** |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | 2012 £ | 2011 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by/(used in) operations | 31 | **(153,731)** | 3,457,632 |
| Finance costs | | **(227,694)** | (320,063) |
| Finance income | | **2,337** | 82,500 |
| **Net cash generated by/(used in) operating activities** | | **(379,088)** | 3,220,069 |
| **Refund of income taxes paid** | | **217,457** | – |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | **65,226** | – |
| Payments to acquire property , plant and equipment | | **(132,394)** | (124,640) |
| Acquisition of subsidiary, net of cash acquired | | **–** | (5,241,067) |
| Purchases of available-for-sale finance assets | | **(81,870)** | (44,053) |
| Acquisition of subsidiary | | **(2)** | – |
| **Net cash used in investing activities** | | **(149,040)** | (5,409,760) |
| **Cash flows from financing activities** | | | |
| New bank loans raised | | **–** | 4,900,000 |
| Repayment of borrowings | | **(425,744)** | (2,407,603) |
| Proceed of advances from debt factoring | | **1,473,707** | 8,656 |
| Capital element of hire purchase contracts repayments | | **(85,774)** | (48,853) |
| **Net cash generated by financing activities** | | **962,189** | 2,452,200 |
| **Net increase in cash and cash equivalents** | | **651,518** | 262,509 |
| Cash and cash equivalents at the start of the year | | **89,906** | (172,603) |
| **Cash and cash equivalents at the end of the year** | | **741,424** | 89,906 |

| | 2012 £ | 2011 £ |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Cash at bank and in hand | **840,536** | 7,213,448 |
| Bank overdrafts | **(99,112)** | (7,123,542) |
| | **741,424** | 89,906 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

**1. General information**

Poeticgem Limited is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The principal activity of the company is disclosed in the directors' report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environments in which the company operates.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRSs), and the Companies Act 2006 applicable to companies reporting under IFRSs.

**2.1 Group accounts**

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by Section 401 of the Companies Act 2006 as it is a subsidiary undertaking of Multinational Textile Group Limited, a company incorporated in Mauritius, and is included in the consolidated accounts of that company.

**2.2 Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|---|---|
| Freehold land and buildings | 1% straight line |
| Leasehold land and buildings | 1% straight line on long lease and over lease term for short lease |
| Plant and machinery | 33.33% reducing balance |
| Fixtures, fittings and equipment | 25% reducing balance |
| Motor vehicles | 25% reducing balance |

Freehold land is not depreciated

**2.3 Impairment**

The carrying values of the company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

**2.4 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

– **Sale of goods**

Revenue represents amounts receivable from the distribution of garments net of discounts and value added tax. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

– **Rental income**

Rental income is earned at arm's length on the freehold property which is occupied by one of the company's subsidiaries. Rental income under operating leases is credited to the statement of comprehensive income on a straight line basis over the term of the lease.

– **Interest income**

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

– **Corporate income**

Corporate income represents the recovery of cost of services rendered by senior management. It is accounted for on an accrual basis.

**2.5 Leasing and hire purchase commitments**

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

Assets obtained under finance leases and hire purchase contracts are capitalised as tangible assets and depreciated over their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the statement of comprehensive income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

**2.6 Investments**

Investments in subsidiary undertakings are stated at cost less provision for impairment.

**2.7 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the FIFO method. Net realisable value represents the estimated selling price.

**2.8 Taxation**

Income tax expense represents the current tax payable and deferred tax provisions.

– **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profits as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable of deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

– **Deferred tax**

The company accounts for deferred tax using the liability method and as such recognises all timing differences between the company's profits chargeable to tax and its results as shown in the financial statements. These timing differences arise from the inclusion of gains and losses for tax purposes in different periods from those in which they are recognised in the financial statements. Deferred tax assets are only recognised to the extent it is probable that the future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured on a non-discounted basis at rates of tax expected to apply in the periods in which the timing differences are expected to reverse.

**2.9 Foreign currencies**

Transactions in currencies other than in pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange differences arising on translation are included in the income statement in the period in which they arise.

**2.10 Related parties**

Related parties are individuals and companies where the individual or company 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.

**2.11 Financial instruments**

Financial instruments are measured initially at cost , which is the fair value of whatever was paid or received to acquire or incur them. The company has the following categories of financial assets and liabilities:

- **Trade and other receivables**

  Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less , they are classified as current assets. If not, they are presented as non-current assets . Trade and other receivables are stated at their nominal value as reduced by appropriated allowances for estimated irrecoverable amounts. This also includes factored debts as described overleaf.

- **Trade and other payables**

  Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payable are stated at their nominal value.

- **Factored debts**

  Factored debts are shown as gross assets within trade receivables and a corresponding liability is shown in respect of proceeds received within payables. The interest and factoring charges are recognised in the statement of comprehensive income during the period to which they relate using the effective interest method.

- **Available-for-sale financial assets**

  Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are stated at fair value.

- **Other financial liabilities**

  Trade payables are recognised and carried at original invoice cost and are a short-term liability of the company.

- **Cash and cash equivalents**

  Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the company statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

- **Interest-bearing loans and borrowings**

  Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis in the statement of comprehensive income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

- **Derivative financial instruments and hedge accounting**

  The company uses derivative financial instruments such as forward currency contracts to hedge its exposure to exchange rate movements on merchandise purchases, certain other costs and sales denominated in foreign currencies.

  Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

  The company applies cash flow hedge accounting whereby changes in the fair value of the hedging instrument are recognised directly in equity rather than the statement of comprehensive income. When the hedged item is recognised in the financial statements, the accumulated gains and losses are removed from equity and recognised in the statement of comprehensive income. If the hedged item results in a non-financial asset or non-financial liability, the accumulated gains and losses are removed from equity and recognised as adjustments to their initial carrying value.

  Hedge effectiveness testing is carried out retrospectively and prospectively and where ineffectiveness arises on hedged item, the changes in fair value are taken directly to the statement of comprehensive income for the year.

**2.12 New IFRSs and interpretations not applied**

The IASB has issued the following standards and interpretations which have been endorsed by the European Union to be applied to financial statements with periods commencing on or after the following dates:

| | | Effective for period beginning on or after |
|---|---|---|
| IFRS7 | Amendments enhancing disclosures about transfers of financial assets | 1 July 2011 |
| IAS 12 | Limited scope amendment (recovery of underlying assets) | 1 January 2012 |
| IFRS 9 | Financial Instruments - Classification and Measurement | 1 January 2013 |

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

**3. Significant judgements and estimates**

The preparation of the company's financial statements in conforming with IFRSs requiring management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances. Information about such judgements and estimates is contained in either the accounting policies or in the notes to the financial statements.

*Current economic environment*

The current economic environment could have an impact on a number of estimates necessary to prepare the financial statements, in particular, the recoverable amount of assets and contingent liabilities. The company has taken these factors into account in assessing the estimates set out below.

*Foreign payables and foreign receivables*

Certain foreign payables and foreign receivables are not retranslated at the rates prevailing on the balance sheet date, because in the directors' opinion the payables are covered by the forward exchange contracts and the receivables will be collected at the sterling amount recognised in the financial statements. Any net overstatement or net understatement of foreign exchange differences is not considered to be material.

*Available-for-sale financial assets*

Available-for-sale financial assets are stated in the financial statements at the same carrying value at the balance sheet date. In the directors' opinion, these financial assets have not been impaired and are correctly stated.

*Derivative financial instruments*

Derivative financial instruments are recognised at fair value and change significantly from period to period.

**4. Revenue**

**a. Company activities**

The company's activity is in a single business segment, being the supply of ladies', men's and children's garments.

**b. Revenue by geographical market and customer location**

The company's operations are located primarily in the UK and the business activity is reportable as follows:

**Analysis of revenue by category:**

| | 2012 £ | 2011 £ |
|---|---|---|
| Sale of garments | **15,565,880** | 11,661,790 |
| Commission receivable | **8,301,832** | 10,583,470 |
| | **23,867,712** | 22,245,260 |

Analysis of revenue by geographical market and customer location are as follows:

| | 2012 £ | 2011 £ |
|---|---|---|
| UK | **14,829,108** | 10,726,930 |
| Rest of the World | **8,301,832** | 10,583,470 |
| Europe | **736,772** | 934,860 |
| | **23,867,712** | 22,245,260 |

**5. Other income**

| | 2012 £ | 2011 £ |
|---|---|---|
| Rent receivable | **149,526** | 149,526 |
| Exchange (loss)/gain | **244,882** | (96,410) |
| Corporate income | **683,856** | 351,168 |
| Design income | **611,724** | – |
| Other income | **215,256** | 560,597 |
| | **1,905,244** | 964,881 |

**6. Operating profit**

Operating profit has been arrived at After charging/(crediting):

| | 2012 £ | 2011 £ |
|---|---|---|
| Staff costs (see note 7) | **4,185,780** | 5,566,878 |
| Depreciation of property, plant and equipment | **316,379** | 337,549 |
| Loss on disposal of property, plant and equipment | **17,686** | – |
| Operating lease rentals | **239,758** | 234,109 |
| Hire of equipment | **6,109** | 7,892 |
| Loss/(profit) on foreign exchange transactions | **(244,882)** | 96,410 |
| Fees payable to auditors: | | |
| Audit of annual financial statements | **55,000** | 51,000 |
| Other services- review of the interim financial statements | **10,666** | 23,300 |
| Other services relating to taxation | **3,500** | 34.425 |
| Other services | **5,250** | 358 |

**7. Staff numbers and costs**

The payroll costs (including directors) were as follows:

| | 2012 £ | 2011 £ |
|---|---|---|
| Staff wages and salaries | **3,608,313** | 4,766,369 |
| Directors' remuneration | **152,500** | 240,000 |
| Social security costs | **424,967** | 560,509 |
| | **4,185,780** | 5,566,878 |

The average number of employees (including directors) during the year was:

| | 2012 Number | 2011 Number |
|---|---|---|
| Designers | **41** | 41 |
| Sales | **46** | 61 |
| Management and administration | **15** | 17 |
| Quality control | **13** | 17 |
| | **115** | 136 |

**Directors' emoluments**

| | £ | £ |
|---|---|---|
| Emoluments for qualifying services | **173,023** | 267,605 |

## 8. Finance income

| | 2012 £ | 2011 £ |
|---|---|---|
| Interest income on bank deposits | **2,337** | 10,077 |
| Interest income on short-term investments | **–** | 54,360 |
| Interest income on loans to related parties | **–** | 10,805 |
| Interest income on VAT refund | **–** | 7,258 |
| | **2,337** | 82,500 |

## 9. Finance costs

| | 2012 £ | 2011 £ |
|---|---|---|
| Interest on borrowings | **224,420** | 303,858 |
| Interest on obligations under hire purchase and lease contracts | **3,274** | 16,205 |
| | **227,694** | 320,063 |

## 10. Amounts written off investments

| | 2012 £ | 2011 £ |
|---|---|---|
| – permanent diminution in value of investments | **1,000** | – |

## 11. Taxation for the period

| | 2012 £ | 2011 £ |
|---|---|---|
| **Income tax expense** | | |
| **Current tax expense:** | | |
| UK corporation tax: | **251,076** | – |
| Adjustment for prior years | **–** | 29,240 |
| **Total current tax (see below)** | **251,076** | 29,240 |
| **Deferred tax:** | | |
| Origination and reversal of temporary differences | **12,409** | (681) |
| **Total deferred tax (see note 24)** | **12,409** | **(681)** |
| **Income tax expenses** | **263,485** | **28,559** |
| **Reconciliation of current tax expenses to accounting profit:** | | |
| (Loss)/profit before taxation | **757,843** | (171,463) |
| Notional taxation charge at the UK corporation tax rate of 26% (2011 : 28%) | **197,039** | (48,010) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | **23,954** | 37,629 |
| Excess depreciation over capital allowances | **29,677** | 38,444 |
| Adjustments in respect of prior years | **–** | (29,240) |
| Other tax adjustments | **406** | – |
| Tax losses surrendered from group company | **–** | (28,063) |
| **Total current charge/(credit) for the year** | **251,076** | (29,240) |

The company has claimed group relief of £Nil (2011: £100,225) for losses surrendered by its fellow group company which has resulted in a £251,076 (2011 : £Nil) corporation tax charge.

## 12. Property, plant and equipment

| | Land and buildings freehold £ | Land and buildings leasehold £ | Plant and machinery £ | Fixtures, fittings & equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2011 | 2,436,537 | 602,093 | 602,906 | 744,031 | 245,654 | 4,631,221 |
| Additions | – | – | 109,581 | 19,896 | 2,916 | 132,393 |
| Disposals | – | – | – | – | (220,623) | (220,623) |
| At 31 March 2012 | 2,436,537 | 602,093 | 712,487 | 763,927 | 27,947 | 4,542,991 |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2011 | 104,976 | 387,910 | 419,836 | 541,683 | 125,941 | 1,580,346 |
| On disposals | – | – | – | – | (137,712) | (137,712) |
| Charge for the year | 24,366 | 127,979 | 77,717 | 51,819 | 34,498 | 316,379 |
| At 31 March 2012 | 129,342 | 515,889 | 497,553 | 593,502 | 22,727 | 1,759,013 |
| **Carrying amount** | | | | | | |
| At 31 March 2012 | 2,307,195 | 86,204 | 214,934 | 170,425 | 5,220 | 2,783,978 |
| At 31 March 2011 | 2,331,561 | 214,183 | 183,070 | 202,348 | 119,713 | 3,050,875 |

Included in the above are assets held under finance leases and hire purchase contracts as follows:

| | Motor vehicles 2012 £ | 2011 £ |
|---|---|---|
| Cost | **25,031** | 210,974 |
| Aggregate depreciation | **(22,242)** | (99,668) |
| Carrying amount | **2,789** | 111,306 |

**Security**

Properties with a carrying value of £2,307,195 (2011 : £2,331,561) are subject to a legal charge to secure bank loans (see note 19).

| | Land and buildings freehold £ | Land and buildings leasehold £ | Plant and machinery £ | Fixtures, fittings & equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2010 | 2,436,537 | 567,761 | 489,035 | 711,471 | 245,654 | 4,450,458 |
| Additions | – | 34,332 | 113,871 | 32,560 | – | 180,763 |
| Disposals | – | – | – | – | – | – |
| At 31 March 2011 | 2,436,537 | 602,093 | 602,906 | 744,031 | 245,654 | 4,631,221 |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2010 | 80,610 | 267,666 | 334,497 | 478,620 | 81,404 | 1,242,797 |
| On disposals | – | – | – | – | – | – |
| Charge for the year | 24,366 | 120,244 | 85,339 | 63,063 | 44,537 | 337,549 |
| At 31 March 2011 | 104,976 | 387,910 | 419,836 | 541,683 | 125,941 | 1,580,346 |
| **Carrying amount** | | | | | | |
| At 31 March 2011 | 2,331,561 | 214,183 | 183,070 | 202,348 | 119,713 | 3,050,875 |
| At 31 March 2010 | 2,355,927 | 300,095 | 154,538 | 232,851 | 164,250 | 3,207,661 |

Included in the above are assets held under finance leases and hire purchase contracts as follows:

| | Motor vehicles 2011 £ | 2010 £ |
|---|---|---|
| Cost | 210,974 | 226,060 |
| Aggregate depreciation | (99,668) | (66,655) |
| Carrying amount | 111,306 | 159,405 |

**13. Investments in subsidiaries**

| | Shares in Subsidiary Undertakings | |
|---|---|---|
| | **2012** £ | 2011 £ |
| **Cost** | | |
| At the beginning of the year | **8,075,487** | 575,520 |
| Additions during the year | **2** | 7,500,000 |
| Cost written down | **(1,000)** | (33) |
| At the end of the year | **8,074,489** | 8,075,487 |

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

**Holdings of more than 20%**

The company holds more than 20% of the share capital of the following companies:

| Company | Country of registration or incorporation | Class | Shares held % |
|---|---|---|---|
| **Subsidiary undertakings** | | | |
| Pacific Logistics Limited | England and Wales | Ordinary | 100 |
| Poeticgem (Canada) Limited | Canada | Ordinary | 100 |
| Poetic Knitwear Limited | England and Wales | Ordinary | 100 |
| FX Import Company Limited | England and Wales | Ordinary | 75 |
| FX Import Hong Kong Limited | Hong Kong | Ordinary | 75 |
| Razamtazz Limited | Mauritius | Ordinary | 100 |

The aggregate amount of capital and reserves and the results of the undertakings at 31 March 2012 were as follows:

| | Capital and reserves £ | Profit/(loss) for the period £ |
|---|---|---|
| Pacific Logistics Limited | 120,768 | 15,805 |
| Poeticgem (Canada) Limited | 60,601 | 63,810 |
| Poetic Knitwear Limited | (691,366) | 181,800 |
| FX Import Company Limited | (638,021) | 239,726 |
| FX Import Hong Kong Limited | 69,377 | 24,850 |
| Razamtazz Limited | 5,925,392 | (228,555) |

During the year, Pacific Supply Chain Limited, a 100% owned subsidiary, made an application to be dissolved .

**14. Other investments**

| | **2012** £ | 2011 £ |
|---|---|---|
| • Available-for-sale: | | |
| At start of the year | **273,203** | 229,150 |
| Additions during the year | **80,125** | 61,750 |
| Net profit/(loss) - exchange difference | **1,745** | (17,697) |
| At the end of the year | **355,073** | 273,203 |

Other investments are available-for-sale financial assets consisting of ordinary shares and therefore, have no maturity date or coupon rate. In the directors' opinion, the fair value of this unlisted security is the same as the carrying value at the balance sheet date.

**15. Short-term investments**

| | **2012** £ | 2011 £ |
|---|---|---|
| • Available-for-sale: | | |
| At the start of the year | **–** | 696,656 |
| Transferred to investment in equity of Razamtazz Limited | **–** | (678,689) |
| Net loss - exchange difference | **–** | (17,967) |
| At the end of the year | **–** | – |

Last year, the above short-term investment was transferred to Razamtazz Limited. This company was acquired as a wholly owned subsidiary for £7,500,000.

**16. Inventories**

| | **2012** £ | 2011 £ |
|---|---|---|
| Finished goods and goods for resale | **853,153** | 1,379,642 |

**17. Trade and other receivables**

| | **2012** £ | 2011 £ |
|---|---|---|
| **Current assets** | | |
| Trade receivables | **6,044,392** | 1,586,016 |
| Other receivables | **867,650** | 2,776,851 |
| Receivables from fellow group companies | **1,356,073** | 1,439,869 |
| Receivables from subsidiary companies | **1,530,532** | 1,466,439 |
| Prepaid expenses | **256,842** | 286,037 |
| Receivables from related parties | **362,952** | 381,053 |
| | **10,418,441** | 7,936,265 |
| **Non-current assets** | | |
| Other receivables | **234,532** | 234,841 |
| Receivables from subsidiary companies | **465,670** | 401,755 |
| | **700,202** | 636,596 |

The average credit period given for trade receivable at the end of the year is 143 days (2011: 50 days). Average credit period for trade receivables is high because 41% of annual turnover was concentrated in the last quarter of the year.

At 31 March 2012, the ageing analysis of trade receivables is as follows:

| | | Overdue but not impaired | |
|---|---|---|---|
| | Total £ | <3 months £ | >3 months £ |
| **2012** | **1,149,075** | **1,142,285** | **6,790** |
| 2011 | 324,599 | 319,044 | 5,555 |

All the amounts are due to be recovered within 12 months of the balance sheet date. The fair value of trade and other receivables is the same as the carrying value shown above.

The maximum exposure to credit risk for trade and other receivables is represented by their carrying amount. The company does not have a significant concentration of credit risk for its trade receivables because its customer base is large.

There is a charge over the bank security deposit of £500,001 (2011: £383,545) which is included in other receivables.

**18. Trade and other payables**

| | 2012 £ | 2011 £ |
|---|---|---|
| Trade payables | **1,071,581** | 607,064 |
| Payables to fellow group companies | **4,439,054** | 4,138,343 |
| Payables to subsidiary companies | **35,938** | 13,041 |
| Payable to related parties | **391,395** | 610,471 |
| Social security and other taxes | **239,518** | 140,100 |
| Other payables | **2,517** | 2,401 |
| Accrued expenses | **250,297** | 156,976 |
| | **6,430,300** | 5,668,396 |

Trade payables and accrued expenses mainly comprise of amounts owed for trading purchases and associated costs.

All trade and other payables are due to be paid within 12 months of the balance sheet date.

The fair value of trade and other payables is the same as the carrying value shown above .

**19. Borrowings**

| | 2012 £ | 2011 £ |
|---|---|---|
| Bank overdrafts | **99,112** | 7,123 ,542 |
| Bank loans | **7,075,777** | 7,501,521 |
| Advances from factors | **2,375,170** | 901,464 |
| Loan from parent undertaking | **561,054** | 561,054 |
| | **10,111,113** | 16,087,581 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | **4,650,059** | 10,555,414 |
| In the second year | **–** | 71,113 |
| In the third to fifth years inclusive | **5,461,054** | 5,461,054 |
| | **10,111,113** | 16,087,581 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(4,650,059)** | ( 10,555,414) |
| Amount due for settlement after 12 months | **5,461,054** | 5,532,167 |

The weighted average of interest rates paid was as follows:

| | 2012 % | 2011 % |
|---|---|---|
| Bank overdrafts | **2.50** | 2.50 |
| Bank loans | **2.94** | 2.28 |

Bank loans are arranged at floating rates, thus exposing the company to cash flow interest rate risk.

The other principal features of the company's borrowings are as follows:

i) Bank overdrafts are repayable on demand. The average effective interest rate on bank overdrafts approximates to 2.5 percent per annum and is determined based on 2 percent plus base rate.

ii) The company 's bank loans are secured by a legal charge over the freehold property at Teleflex Plot, Burnleys , Kiln Farm, Milton Keynes and fixed and floating charges over the assets of the company and a cross guarantee between Poeticgem Limited and its subsidiary Pacific Logistics Limited. The average effective interest rate on bank loans approximates to 2.94 percent per annum and is determined based on 2.12 percent plus base rate.

At 31 March 2012 the company had available £2,389,206 (2011: £969,625) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The company has advances from factors that are secured by a charge on the trade receivables of the company.

Other loans represent an amount of £561,054 (2011: £561,054) due to Global Textile Group Limited, the company's immediate parent company. The amount is unsecured and repayable after more than one year. Interest is chargeable at a rate of 9% per annum on an amount of £248,270.

The carrying value of all the company's long term borrowings approximate to their fair value as at the balance sheet date.

**20. Hire purchase contracts and finance leases**

| | 2012 £ | 2011 £ |
|---|---|---|
| Amounts payable are as follows: | | |
| Within one year | **4,061** | 62,128 |
| In the second to fifth years | **–** | 56,219 |
| Less: Future interest charges | **(508)** | (29,020) |
| Present value of the obligations | **3,553** | 89,327 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(3,553)** | (48,689) |
| Amount due for settlement after 12 months | **–** | 40,638 |

The fair value of the hire purchase contracts and finance leases is approximately equal to the carrying amount.

The company's obligations under hire purchase contracts and finance leases are secured by charges over the relevant assets.

**21. Derivative financial instruments**

| | 2012 £ | 2011 £ |
|---|---|---|
| Forward foreign exchange (fair value) | **241,859** | 132,589 |

The terms of the forward foreign exchange contracts have been negotiated to match the terms of the commitments referred to below. The cash flow hedges of the expected future purchases were assessed to be highly effective and as at 31 March 2012, a recognised gain of £241,859 (2011: £132,589) was included in the hedging reserves in respect of these contracts .

The ineffective portion recognised in the statement of comprehensive income that arises from cash flow hedges amounts to a gain of £ 133,652 (2011: £279,678).

At the balance sheet date, the total notional amounts of outstanding forward foreign exchange contracts that the company has committed to are as follows:

| | 2012 £ | 2011 £ |
|---|---|---|
| Forward foreign exchange contracts (cash flow hedges) | **15,848,109** | 17,591,965 |

These commitments have been entered into to hedge against future payments to suppliers in the ordinary course of business that will fall due in the period ending 31 March 2013.

Poeticgem Limited

**22. Financial instruments**

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows :

| | Financial assets at fair value through profit or loss-held for trading £ | Available-for-sale financial assets £ | Loan and receivables £ | Financial liabilities at amortised cost £ | 2012 Total £ |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Available-for-sale investments | – | 355,073 | – | – | 355,073 |
| Other long-term receivables | – | – | 234,532 | – | 234,532 |
| Trade receivables | – | – | 6,044,392 | – | 6,044,392 |
| Other receivables | – | – | 867,650 | – | 867,650 |
| Receivables from fellow group companies | – | – | 1,356,073 | – | 1,356,073 |
| Receivables from subsidiary companies | – | – | 1,530,532 | – | 1,530,532 |
| Receivables from related parties | – | – | 362,952 | – | 362,952 |
| Cash and cash equivalents | – | – | 840,536 | – | 840,536 |
| Derivative financial assets | 241,859 | – | – | – | 241,859 |
| **Total financial assets** | **241,859** | **355,073** | **11,236,667** | **–** | **11,833,599** |
| **Financial liabilities** | | | | | |
| Hire purchase contracts and finance leases | – | – | – | 3,553 | 3,553 |
| Trade payables, other payables and accruals-current | – | – | – | 1,324,395 | 1,324,395 |
| Other payables-not current | – | – | – | 26,074 | 26,074 |
| Secured borrowings | – | – | – | 9,550,059 | 9,550,059 |
| Payable to immediate parent company | – | – | – | 561,054 | 561,054 |
| Payables to fellow group companies | – | – | – | 4,439,054 | 4,439,054 |
| Payables to subsidiary companies | – | – | – | 35,938 | 35,938 |
| Payables to related parties | – | – | – | 391,395 | 391,395 |
| **Total financial liabilities** | **–** | **–** | **–** | **16,331,522** | **16,331,522** |

| | Financial assets at fair value through profit or loss-held for trading £ | Available-for-sale financial assets £ | Loan and receivables £ | Financial liabilities at amortised cost £ | 2011 Total £ |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Available-for-sale investments | – | 273,203 | – | – | 273,203 |
| Other long-term receivables | – | – | 234,841 | – | 234,841 |
| Trade receivables | – | – | 1,586,016 | – | 1,586,016 |
| Other receivables | – | – | 2,412,845 | – | 2,412,845 |
| Receivables from fellow group companies | – | – | 1,439,869 | – | 1,439,869 |
| Receivables from subsidiary companies | – | – | 1,868,194 | – | 1,868,194 |
| Receivables from related parties | – | – | 381,053 | – | 381,053 |
| Cash and cash equivalents | – | – | 7,213,448 | – | 7,213,448 |
| Derivative financial assets | 132,589 | – | – | | 132,589 |
| **Total financial assets** | **132,589** | **273,203** | **15,136,266** | **–** | **15,542,058** |
| **Financial liabilities** | | | | | |
| Hire purchase contracts and finance leases | – | – | – | 89,327 | 89,327 |
| Trade payables, other payables and accruals-current | – | – | – | 766,441 | 766,441 |
| Other payables-not current | – | – | – | 28,510 | 28,510 |
| Secured borrowings | – | – | – | 15,526,527 | 15,526,527 |
| Payable to immediate parent company | – | – | – | 561,054 | 561,054 |
| Payables to fellow group companies | – | – | – | 4,138,343 | 4,138,343 |
| Payables to subsidiary companies | – | – | – | 13,041 | 13,041 |
| Payables to related parties | – | – | – | 610,471 | 610,471 |
| **Total financial liabilities** | | **–** | **–** | **21,733,714** | **21,733,714** |

**23. Financial risk management objectives and policies**

The company's exposure to interest rate risk, foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the company's financial management policies and practices described below:

**a) Interest rate risk**

The company's exposure to the risk of changes in market interest rates relates primarily to the company's interest-bearing bank borrowings with floating interest rates.

The company's policy to manage its interest rate risk is to reduce or maintain its current level of interest-bearing borrowings. As the company is not expected to significantly increase its level of interest-bearing borrowings, it has not used any interest rate swaps to hedge its exposure to interest rate risk.

*Sensitivity analysis*

The following table demonstrates the sensitivity to a possible change in interest rates (+/- 0.25%), with all other variables held constant on the company's profit or loss (through the impact on floating rate borrowings) and the company's equity.

| | Increase/ (Decrease) in profit before tax £ | Increase/ (Decrease) in equity £ |
|---|---|---|
| **2012** | | |
| Increase in basis point of 0.25% | (23,875) | (23,875) |
| Decrease in basis point of 0.25% | 23,875 | 23,875 |
| **2011** | | |
| Increase in basis point of 0.25% | (38,816) | (38,816) |
| Decrease in basis point of 0.25% | 38,816 | 38,816 |

**b) Foreign currency risk**

The company has transactional currency exposures. Such exposures arise mainly from purchases in currencies other than the company's functional currency. Approximately 86% (2011: 73%) of the company's purchases are denominated in currencies other than the functional currency of the company, whilst almost all of the company's sales are denominated in the company's functional currency .

The company uses forward currency contracts to eliminate the foreign currency exposures on its purchases transactions, for which the corresponding settlements are anticipated to take place more than one month after the company has entered into firm commitments for the purchases. The forward currency contracts must be in the same currency as the hedged items. The company negotiates the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness . It is the company's policy that a forward contract is not entered into until a firm commitment is in place.

At 31 March 2012, the company had fully hedged its foreign currency purchases for which firm commitments existed at the balance sheet date, thus the company's exposure to foreign currency risk is minimal. These arrangements are designed to address significant exchange exposures and are renewed on a revolving basis as required .

At 31 March 2012, the company held 51 forward currency contracts (2011: 29) designated as hedges in respect of expected future purchases from suppliers in Asia, for which the company has firm commitments.

*i) Currency exposures*

The following table details the company's exposure (after taking account of derivative foreign currency contracts, which are not designated as hedging instruments for accounting) at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | US dollar $ |
|---|---|
| **At 31 March 2012** | |
| Trade and other receivables | 1,371,588 |
| Cash and cash equivalents | 764,535 |
| Trade payables | (646,447) |
| Other payables | (61,729) |
| Borrowings | (2,205,795) |
| Net exposure arising from recognised assets and liabilities | (777,848) |

| | US dollar $ |
|---|---|
| **At 31 March 2011** | |
| Trade and other receivables | 3,439,787 |
| Cash and cash equivalents | 7,199,543 |
| Trade payables | (124,495) |
| Other payables | (39,037) |
| Borrowings | (9,504,454) |
| Net exposure arising from recognised assets and liabilities | 971,344 |

*ii) Sensitivity analysis*

The company is exposed to a number of foreign currencies. The most significant transactional currency exposure is US dollar with sterling.

The following table demonstrates the sensitivity to a possible change if the sterling weakened/strengthened by 10% against the US dollar, with all other variables held constant, on the company's profit or loss and the company's equity.

| | Increase/ (Decrease) in profit before tax $ | Increase/ (Decrease) in equity $ |
|---|---|---|
| **2012** | | |
| 10% weakened | 77,785 | 77,785 |
| 10% strengthened | (77,785) | (77,785) |
| **2011** | | |
| 10% weakened | (97,134) | (97,134) |
| 10% strengthened | 97,134 | 97,134 |

**c) Credit risk**

The company is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments.

The company trades on credit terms only with recognised and creditworthy third parties. If the wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Receivable balances are monitored on an ongoing basis and there is no significant concentration of credit risk within the company. The company's exposure to bad debts is also not significant as the company's trade receivables relate to diversified debtors and most of the trade receivables are factored.

Since the company trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the company's other financial assets, which comprise deposits and other receivables, amounts due from group companies, bank balances and pledged time deposits, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

**d) Liquidity risk**

The company's policy is to hold financial instruments and financial assets (eg. trade receivables) and maintain undrawn committed facilities at a level sufficient to ensure that the company has available funds to meet its medium-term capital and funding obligations and to meet any unforeseen obligations and opportunities. The company holds cash and short-term investments which, together with the undrawn committed facilities, enable the company to manage its liquidity risk.

The company's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The repayment terms of the company's balances with group companies are disclosed in note 19. The maturity profile of the company's other financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

| | Within 1 year or on demand £ | More than 1 year but less than 2 years £ | More than 2 years £ | 2012 Total £ |
|---|---|---|---|---|
| Trade payables | 1,071,581 | – | – | 1,071,581 |
| Other payables | 252,814 | – | 26,074 | 278,888 |
| Borrowings | 4,650,059 | – | 5,461,054 | 10,111,113 |
| Hire purchase contracts and finance leases | 3,553 | – | – | 3,553 |
| Payables to fellow group companies | 4,439,054 | – | – | 4,439,054 |
| Payables to subsidiary companies | 35,938 | – | – | 35,938 |
| Payables to related parties | 391,395 | – | – | 391,395 |
| | 10,844,394 | – | 5,487,128 | 16,331,522 |

**More than**

| | Within 1 year or on demand £ | More than 1 year but less than 2 years £ | More than 2 years £ | 2011 Total £ |
|---|---|---|---|---|
| Trade payables | 607,064 | – | – | 607,064 |
| Other payables | 159,377 | – | 28,510 | 187,887 |
| Borrowings | 10,555,414 | 71,113 | 5,461,054 | 16,087,581 |
| Hire purchase contracts and finance leases | 48,689 | 40,638 | – | 89,327 |
| Payables to fellow group companies | 4,138,343 | – | – | 4,138,343 |
| Payables to subsidiary companies | 13,041 | – | – | 13,041 |
| Payables to related parties | 610,471 | – | – | 610,471 |
| | 16,132,399 | 111,751 | 5,489,564 | 21,733,714 |

The maturity analysis applies to financial instruments only and therefore, statutory liabilities are not included.

e) **Capital management**

The company aims to manage its overall capital to ensure that it continues to operate as a going concern and maintains sufficient financial flexibility to undertake planned investments, whilst providing adequate return to shareholders .

The company's capital structure is reviewed on a quarterly basis to ensure that an appropriate level of gearing is being used.

The company calculates its gearing ratio as borrowings, including current and non-current borrowings, divided by total capital as represented by borrowings less cash and cash equivalents plus total equity.

**24. Deferred tax liabilities (net)**

The deferred tax liabilities are shown net of deferred tax assets as the total deferred tax assets is insignificant to the total deferred tax liabilities.

The analysis of deferred tax assets and deferred tax liabilities is as follows :

| | 2012 £ | 2011 £ |
|---|---|---|
| Deferred tax assets | – | 681 |
| Deferred tax liabilities | (350,773) | (339,045) |
| Deferred tax liabilities (net) | (350,773) | (338,364) |

This gross movement on the deferred tax account is as follows :

| | 2012 £ | 2011 £ |
|---|---|---|
| At the start of the year | (338,364) | (339,045) |
| Credited/(charged) to statement of comprehensive income | (12,409) | 681 |
| At the end of the year | (350,773) | (338,364) |

The movement in deferred tax assets and liabilities during the year is as follows:

| | Decelerated/ (accelerated) tax depreciation £ | Rolled-over and held over gains £ | Total £ |
|---|---|---|---|
| **At 1 April 2010** | – | (339,045) | (339,045) |
| Tax credit to statement of comprehensive income | 681 | – | 681 |
| **At 31 March 2011** | 681 | (339,045) | (338,364) |
| Tax charge to statement of comprehensive income | (12,409) | – | (12,409) |
| **At 31 March 2012** | (11,728) | (339,045) | (350,773) |

**25. Share capital**

| | 2012 £ | 2011 £ |
|---|---|---|
| **Issued and fully paid** | | |
| 50,000 Ordinary shares of £1 each | 50,000 | 50,000 |

**26. Other reserves**

| | 2012 £ | 2011 £ |
|---|---|---|
| **Hedging reserve** | | |
| Cash flow hedges: | | |
| Fair value at the start of the year | (132,589) | 381,461 |
| Decrease in fair value of cash flow hedges (see note 21) | (109,270) | (514,050) |
| Fair value at the end of the year | (241,859) | (132,589) |

**27. Retained earnings**

| | 2012 £ | 2011 £ |
|---|---|---|
| Balance at the start of the year | 6,303,338 | 6,503,360 |
| (Loss)/profit for the financial year | 494,358 | (200,022) |
| Balance at the end of the year | 6,797,696 | 6,303,338 |

**28. Operating lease arrangements**

| | 2012 £ | 2011 £ |
|---|---|---|
| Minimum lease payments under operating leases recognised in the statement of comprehensive income for the year | 239,758 | 202,505 |

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows :

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | 2012 £ | 2011 £ | 2012 £ | 2011 £ |
| Within one year | 68,655 | 195,932 | 83,595 | 27,835 |
| Between two and five years | – | 61,087 | 72,902 | 25,226 |
| | 68,655 | 257,019 | 156,497 | 53,061 |

Operating lease payments represent rentals payable by the company.

**29. Contingent liabilities**

At 31 March 2012, the company had the following contingent liabilities :

The company's bankers, Royal Bank of Scotland plc have given the following guarantee on behalf of the company :

HM Revenue and Customs £500,000

The company has extended an unlimited guarantee on the banking facilities of its subsidiary company, Pacific Logistics Limited . This guarantee is supported by a debenture dated 17 August 2005. At the balance sheet date, there was no contingent liability under this guarantee.

The company has given an unlimited guarantee on the banking facilities of its subsidiary company, FX Import Company Limited. The company's maximum contingent liability under the guarantee as at 31 March 2012 is £290,376.

**30. Capital commitments**

Capital commitments contracted for at the balance sheet date but not yet incurred are as follows:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **$** | **£** | $ | £ |
| Non current asset investments | **433,800** | **272,043*** | 562,000 | 350,549* |

*Amounts have been translated at the exchange rate prevailing at the balance sheet date.

**31. Notes to the cash flow statement**

| | **2012 £** | 2011 £ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit from operations | **984,200** | 66,100 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **316,379** | 337,549 |
| Loss on disposal of property, plant and equipment | **17,686** | – |
| **Operating cash inflows before working capital** | **1,318,265** | 403,649 |
| Decrease in inventories | **526,489** | 93,654 |
| Decrease/(increase) in receivables | **(2,757,952)** | 729,174 |
| Increase in payables | **759,467** | 2,231,155 |
| **Cash generated by/(used in) operations** | **(153,731)** | 3,457,632 |

**32. Related party transactions**

**a) Transactions with related companies**

During the year, the company entered into the following transactions with related parties:

| | **Sales/management fee FOB transfers/rent/ commissions interest received** | | **Commission interest paid/ purchased/expenses** | | **Amounts owed by related party** | | **Amounts owed to related party** | |
|---|---|---|---|---|---|---|---|---|
| | **2012 £** | 2011 £ | **2012 £** | 2011 £ | **2012 £** | 2011 £ | **2012 £** | 2011 £ |
| FX Import Company Limited, UK | **–** | 66,000 | **–** | – | **504,838*** | 467,632* | **–** | – |
| Global Textile Group Limited, Mauritius | **–** | – | **22,406** | 21,607 | **–** | – | **622,175•** | 599,486• |
| Pearl Global Industries Limited, India | **–** | – | **39,600** | 29,700 | **12,875** | 63,682 | **–** | – |
| House of Pearl Fashions Limited, USA | **–** | – | **–** | – | **–** | – | **609** | 606 |
| Norp Knit Industries Limited, Bangladesh | **–** | – | **–** | – | **130,816** | 130,114 | **–** | – |
| Norwest Industries Limited, Hong Kong | **8,549,914** | 10,584,546 | **1,940,609** | 2,034,849 | **–** | – | **4,377,325** | 4,099,305 |
| Pacific Logistics Limited, UK | **76,735** | 54,330 | **967,434** | 1,168,697 | **505,921▲** | 532,993▲ | **–** | – |
| Pacific Supply Chain Limited, UK | **–** | – | **–** | – | **–** | 2,071 | **–** | – |
| Pearl Global Limited, India | **–** | – | **–** | – | **52,120** | 426,415 | **–** | – |
| Poeticgem (Canada) Limited, Canada | **18,576** | 31,360 | **–** | – | **106,426** | – | **–** | 13,041 |
| Poetic Knitwear Limited, UK | **–** | – | **–** | – | **879,017** | 865,498 | **–** | – |
| Simple Approach Limited , Hong Kong | **–** | – | **–** | – | **135,204** | 142,402 | **–** | – |
| Spring Near East Manufacturing Limited, Hong Kong | **–** | – | **–** | – | **171,080** | – | **–** | – |
| Vastras, India | **–** | – | **–** | 20,359 | **–** | – | **–** | – |
| Razamtazz Limited, Mauritius | **144,522** | **–** | **–** | – | **–** | – | **35,938** | – |
| Zamira Fashion Limited, Hong Kong | **–** | 27,717 | **–** | 2,364 | **123,753** | 122,704 | **–** | – |
| Zamira Fashions (Europe) Limited, UK | **–** | – | **–** | – | **–** | 63,528 | **–** | – |
| Magic Global Fashions Limited, UK | **–** | – | **–** | – | **–** | 70,377 | **–** | – |
| PG Group Limited, Hong Kong | **–** | – | **–** | – | **–** | 1,988 | **–** | – |
| Nor Lanka Manufacturing Limited, Hong Kong | **611,724** | – | **–** | – | **314,784** | 217,116 | **–** | – |
| NAFS Limited, UK | **–** | – | **–** | – | **734** | 674 | **–** | – |
| Multinational Textile Group Limited, Mauritius | **520,760** | 265,808 | **394,845** | 441,426 | **261,262** | 200,869 | **–** | – |
| Casa Forma Limited, UK | **–** | – | **3,500** | – | **152,789** | – | **–** | – |

The above balances are interest free and repayable on demand

* The amount owed by FX Import Company Limited includes an interest free long-term loan of £451,500 (2011 : £351,500) .

▲The amount owed by Pacific Logistics Limited includes an interest free long-term loan of £ 14,170 (2011: £50,255).

• The amount payable to Global Textile Group Limited , Mauritius is unsecured and repayable after more than one year. Interest is chargeable at a rate of 9% per annum on an amount of £248,270.

The above companies are related as follows:

The ultimate parent company of Poeticgem Limited is Pearl Global Industries Limited, India (formerly known as House of Pearl Fashions Limited).

The immediate parent company of Poeticgem Limited is Global Textile Group Limited, Mauritius.

Pacific Logistics Limited, Pacific Supply Chain Limited, Poetic Knitwear Limited, Poeticgem (Canada) Limited and Razamtazz Limited, are all wholly owned subsidiaries of Poeticgem Limited.

Poeticgem Limited owns a 75% share in FX Import Company Limited .

Pearl Global Limited, India, Norp Knit Industries Limited, Bangladesh and House of Pearl Fashions (US) Limited are subsidiaries of the company's ultimate parent company, Pearl Global Industries Limited, India (formerly known as House of Pearl Fashions Limited).

Norwest Industries Limited, Hong Kong; Nor Lanka Manufacturing Limited, Hong Kong; Spring Near East Manufacturing Limited, Hong Kong; Zamira Fashions Limited, Hong Kong; Simple Approach Limited, Hong Kong and PG Group Limited, Hong Kong (formerly known as Pearl GES Group Limited, Hong Kong) are fellow subsidiaries of Global Textile Group Limited, Mauritius.

Zamira Fashions (Europe) Limited is a subsidiary of Zamira Fashion Limited, Hong Kong.

Magic Global Fashions Limited is a subsidiary of Magic Global Fashions Limited, Hong Kong.

Vastras is an associate of Pearl Global Industries Limited, India.

Casa Forma Limited was a company controlled by common directors which became a wholly owned subsidiary of Multinational Textile Group Limited, the intermediate parent company of Poeticgem Limited, from 1 January 2012.

NAFS Limited is controlled by common directors.

**b) Loans and advances to/(from) related parties**

| **i) Loans and advances to/from key management of the company and their close family members** | **2012 £** | 2011 £ |
|---|---|---|
| At start of the year | **367,556** | (575) |
| Amounts advanced during the year | **882,723** | 983,288 |
| Amounts repaid during the year | **(893,615)** | (615,157) |
| At end of the year | **356,664** | 367,556 |

The above loans are interest free.

| **ii) Loan to business in which key management has a controlling interest** | **2012 £** | 2011 £ |
|---|---|---|
| At start of the year | – | 794,657 |
| Amounts advanced during the year | – | 100 |
| Amounts repaid during the year | – | (794,757) |
| At end of the year | – | – |

The above loans are interest free.

| **iii) Loans to/(from) business in which close family member of key management has a controlling interest** | **2012 £** | 2011 £ |
|---|---|---|
| At start of the year | (610,108) | 817,614 |
| Amounts advanced during the year | – | (7,500,000) |
| Amounts repaid during the year | 225,000 | 6,072,278 |
| Interest charged | – | 54,360 |
| Interest received | – | (54,360) |
| At end of the year | (385,108) | (610,108) |

The above loans are interest free and repayable on demand.

**c) Directors' emoluments**

| | **Salaries/ Bonus £** | **Benefits £** | **2012 £** | **2011 £** |
|---|---|---|---|---|
| Mr. Anuj Banaik | 90,000 | 16,925 | 106,925 | 112,082 |
| Mrs. Payel Seth | 62,500 | 3,599 | 66,099 | 155,523 |

**d) Other transactions with related parties**

Mr. Pallak Seth, close family member of Mrs. Faiza Seth, has given a personal guarantee of £750,000 in respect of a bank loan taken by the company.

Mr. Deepak Seth, close family member of Mrs. Payel Seth, has given a personal guarantee of £4,900,000 plus interest in respect of a bank loan taken by the company.

One of the company's bank loans is secured by a legal charge over Flat 3, 22 Down Street, Mayfair, London, a property owned by Razamtazz Limited, a wholly owned subsidiary of the company.

**33. Control**

The immediate parent company is Global Textile Group Limited, a company registered in Mauritius, and the ultimate parent company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company registered in India. Pearl Global Industries Limited prepares group financial statements and copies can be obtained from Corporate Office: 446, Udyog Vihar, Phase-V, Gurgaon - 122 016 (Haryana), India.

Pearl Global Industries Limited is listed on the Bombay Stock Exchange and National Stock Exchange in India.

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012

The directors present their annual report and the audited financial statements for the year ended 31 March 2012.

**Principal activities**

The principal activity of the company is the importing and distribution of garments.

**Results and dividends**

The results for the year are set out on page 6.

The directors do not recommend the payment of a dividend for the year.

**Directors**

The following directors have held office since 1 April 2011:

Mr. Christopher R. Severs

Mr. Christopher Fox (resigned 9 May 2011)

Mr. Deepak Seth

Mr. Pallak Seth

Mrs. Payel Seth

**Directors' interests**

The directors' interests in the shares of the company were as stated below:

| | **Ordinary 'A' shares of £1 each** | |
|---|---|---|
| | **31 March 2012** | **1 April 2011** |
| Mr. Christopher R. Severs | 6,300 | 6,300 |
| Mr. Deepak Seth | – | – |
| Mr. Pallak Seth | – | – |
| Mrs. Payel Seth | – | – |

| | **Ordinary 'B' shares of £1 each** | |
|---|---|---|
| | **31 March 2012** | **1 April 2011** |
| Mr. Christopher R. Severs | – | – |
| Mr. Deepak Seth | – | – |
| Mr. Pallak Seth | – | – |
| Mrs. Payel Seth | – | – |

**Auditor**

UHY Hacker Young was appointed auditor to the company and in accordance with Section 485 of the Companies Act 2006, a resolution proposing that it be reappointed as auditor will be put at a General Meeting.

**Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and estimates that are reasonable and prudent;

– state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the financial information included on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

– so far as the director is aware, there is no relevant information of which the company's auditor is unaware; and

– the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This information is given and should interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

By order of the board

Sd/-

Mr Christopher Severs

Director

10 May 2012

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FX IMPORT COMPANY LIMITED FOR THE YEAR ENDED 31 MARCH 2012

We have audited the financial statements of FX Import Company Limited for the year ended 31 March 2012, which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the directors and auditor**

As explained more fully in the Directors' Responsibilities Statements set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

**Opinion on financial statements**

In our opinion, the financial statements:

– give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;

– have been properly prepared in accordance with IFRSs as adopted by the EU; and

– have been prepared in accordance with the requirements of the Companies Act 2006.

**Separate opinion in relation to IFRSs as issued by the IASB**

As explained in the accounting policies, the company has prepared financial statements that comply with IFRSs as adopted by the EU and with IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

– adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

– the financial statements are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit; or

– the directors were not entitled to prepare financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report.

**Sd/-**

**Vinod kumar Vedgama (Senior Statutory Auditor)**
**for and on behalf of UHY Hacker Young** **10 May 2012**
**Chartered Accountants**
**Statutory Auditor**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **4,175,777** | 4,174,210 |
| Cost of revenue | | **(2,986,835)** | (3,138,517) |
| **Gross profit** | | **1,188,942** | 1,035,693 |
| Distribution costs | | **(379,557)** | (168,411) |
| Administration expenses | | **(556,386)** | (1,016.349) |
| **Operating profit/(loss)** | 5 | **252,999** | (149,067) |
| Finance income | 7 | **272** | 58 |
| Finance costs | 8 | **(6,045)** | (7,440) |
| **Profit/(loss) before taxation** | | **247,226** | (156,449) |
| Taxation | 9 | **(7,500)** | – |
| **Profit/(loss) for the financial year** | 20 | **239,726** | (156,449) |

None of the company's activities were discontinued in the year.

There are no other comprehensive income and expenses, other than those passing through the statement of comprehensive income.

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

| | Notes | 2012 £ | 2011 £ |
|---|---|---|---|
| **Non current assets** | | | |
| Property, plant and equipment | 10 | **20,312** | 48,919 |
| Intangible assets | 11 | **4,728** | 5,266 |
| Investment in subsidiary | 12 | **865** | 865 |
| | | **25,905** | 55,050 |
| **Current assets** | | | |
| Inventories | 13 | **135,477** | 13,902 |
| Trade and other receivables | 14 | **685,148** | 349,324 |
| Cash and cash equivalents | | **59,313** | 5,348 |
| | | **879,938** | 368,574 |
| **Total assets** | | **905,843** | 423,624 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **(919,571)** | (786,819) |
| Current tax liabilities | | **(7,500)** | – |
| Borrowings | 17 | **(35,695)** | – |
| Hire purchase contracts and finance leases | 16 | **(3,454)** | (3,454) |
| | | **(966,220)** | (790,273) |
| **Net current liabilities** | | **(86,282)** | (421,699) |
| **Non current liabilities** | | | |
| Borrowings | 17 | **(575,500)** | (505,500) |
| Hire purchase contracts and finance leases | 16 | **(2,144)** | (5,598) |
| | | **(577,644)** | (511,098) |
| **Total liabilities** | | **(1,543,864)** | (1,301,371) |
| **Net liabilities** | | **(638,021)** | (877,747) |
| **Shareholders' equity** | | | |
| Share capital | 19 | **25,200** | 25,200 |
| Retained earnings | 20 | **(663,221)** | (902,947) |
| **Total equity** | | **(638,021 )** | (877,747) |

The financial statements were approved by the board of directors and authorised for issue on 10 May 2012 and were signed on its behalf by:

Sd/-
Mr. Christopher Severs
**Director**
**Company registration no. 03170332**

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

| | Share capital £ | Retained earnings £ | Total £ |
|---|---|---|---|
| **Balance at 31 March 2010** | 25,200 | (746,498) | (721,298) |
| **Comprehensive income** | | | |
| Loss for the year | – | (156,449) | (156,449) |
| **Balance at 1 April 2011** | 25,200 | (902,947) | (877,747) |
| **Comprehensive income** | | | |
| Profit for the year | – | 239,726 | 239,726 |
| **Balance at 31 March2012** | 25,200 | (663,221) | (638,021) |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | 2012 £ | 2011 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 22 | **(41,551)** | (246,037) |
| Finance cost paid | | **(6,045)** | (7,440) |
| Finance income | | **272** | – |
| **Net cash used in operating activities** | | **(47,324)** | (253,477) |
| **Cash flows from investing activities** | | | |
| Payments to acquire trade marks | | **(950)** | (5,495) |
| Payments to acquire property, plant and equipment | | **–** | (3,350) |
| Proceeds from sale of property, plant and equipment | | **–** | 7,600 |
| **Net cash used in investing activities** | | **(950)** | (1,245) |
| **Cash flows from financing activities** | | | |
| Proceeds of loan from parent undertaking | | **100,000** | – |
| Repayment of loans to related parties | | **(30,000)** | – |
| New bank loans raised | | **35,695** | – |
| Capital element of hire purchase contracts repayments | | **(3,456)** | (1,310) |
| **Net cash generated by/ (used in) financing activities** | | **102,239** | (1,310) |
| **Net (decrease)/increase in cash and cash equivalents** | | **53,965** | (256,032) |
| Cash and cash equivalents at the start of the year | | **5,348** | 261,380 |
| **Cash and cash equivalents at the end of the year** | | **59,313** | 5,348 |

| | 2012 £ | 2011 £ |
|---|---|---|
| **Cash and cash equivalents comprise:** | | |
| Cash at bank and in hand | 59,313 | 5,348 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

1. **General information**

FX Import Company Limited is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page I. The principal activity of the company is disclosed in the Directors' Report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

2. **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRSs) and the Companies Act 2006 applicable to companies reporting under IFRSs.

**2.1 Going concern**

The financial statements have been prepared on a going concern basis even though at the Balance Sheet date, the company's current liabilities exceeded its current assets by £86,282 (2011: £421,699).

The directors consider the going concern basis to be appropriate because, in their opinion, the company's trading performance will improve in the coming year with the development of new customers despite continuing difficult market conditions. The company will also continue to obtain sufficient funding to enable it to pay its debts as they fall due. If the company were unable to obtain this funding, it would be unable to continue trading and adjustments would have to be made to reduce the value of assets to their realisable amount and to provide for any further liabilities which might arise.

**2.2 Group accounts**

The financial statements present information about the company as an individual undertaking and not about its group. The company and its subsidiary undertaking comprise a small-sized group. The company has therefore, taken advantage of the exemptions provided by Section 399 of the Companies Act 2006 not to prepare group accounts.

**2.3 Intangible assets**

Trademarks are stated at cost, less accumulated amortisation and impairment losses and are amortised over a period of 5 years which, in the opinion of the directors, is the estimated useful economic life.

**2.4 Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value of each asset over its expected useful life, as follows:

| | |
|---|---|
| Land and buildings leasehold | 5% straight line |
| Fixtures, fittings and equipment | 25% reducing balance |
| Motor vehicles | 25% reducing balance |

**2.5 Impairment**

The carrying values of the company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

**2.6 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the distribution of garments net of discounts and value added tax is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Revenue from commission receivable is recognised when the economic benefits associated with the transaction will be received by the company and that the stage of completion can be measured reliably at the balance sheet date.

**2.7 Leasing**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

**2.8 Investments**

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

**2.9 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the FIFO method. Net realisable value represents the estimated selling price.

**2.10 Employee benefits**

Obligations for contributions to the defined contribution pension scheme are charged to the income statement in the period to which they relate.

**2.11 Taxation**

Income tax expense represents the current tax payable and deferred tax provisions.

– **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profits as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

– **Deferred tax**

The company accounts for deferred tax using the liability method and as such, recognises all timing differences between the company's profits chargeable to tax and its results as shown in the financial statements. These timing differences arise from the inclusion of gains and losses for tax purposes in different periods from those in which they are recognised in the financial statements. Deferred tax assets are only recognised to the extent it is probable that the future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured on a non-discounted basis at rates of tax expected to apply in the periods in which the timing differences are expected to reverse.

**2.12 Foreign currencies**

Transactions in currencies, other than pounds sterling, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange differences arising on translation are included in the income statement in the period in which they arise.

**2.13 Factored debts**

Factored debts are shown as gross assets within trade receivables and a corresponding liability is shown in respect of proceeds received within payables. The interest and factoring charges are recognised in the income statement during the period to which they relate using the effective interest method.

**2.14 Related parties**

Related parties are individuals and companies where the individual or company 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.

**2.15 Financial instruments**

The company does not use or trade derivative financial instruments. Financial instruments that the company uses are non-derivative and are recognised initially at fair value. Subject to initial recognition, non-derivative financial instruments are measured as described as follows:

- Trade and other receivables

  Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. This also includes factored debts as described in note 2.13.

- Trade and other payables

  Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payables are stated at their nominal value.

- Cash and cash equivalents

  Cash for the purposes of the statement of cash flows comprises cash at bank and in hand. Cash equivalents are short term liquid investments convertible into cash and are subject to insignificant risk of changes in value. Bank overdrafts which form part of cash and cash equivalents for the purpose of the cash flow statements are shown under current liabilities.

**2.16 New IFRSs and interpretations not applied**

The IASB has issued the following standards and interpretations which have been endorsed by the European Union to be applied to financial statements with periods commencing on or after the following dates:

| | | Effective for period beginning on or after |
|---|---|---|
| IFRS 7 | Amendments enhancing disclosures about transfers of financial assets | 1 July 2011 |
| IAS 12 | Limited scope amendment (recovery of underlying assets) | 1January 2012 |
| IFRS 9 | Financial Instruments - Classification and Measurement | 1 January 2013 |

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

3. **Significant judgements and estimates**

The preparation of the company's financial statements in conforming with IFRSs require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances. Information about such judgements and estimates is contained in either the accounting policies or in the notes to the financial statements. These are listed below:

- No deferred tax asset has been recognised in respect of unutilised losses because in the directors' opinion there is no certainty that the losses will be fully utilised in the near future.

4. **Revenue**

a) **Company's activities**

The company's activity is in a single business segment, being the importing and distribution of garments.

b) **Revenues by geographical market customer location**

The company's operations are located primarily in the UK and the business activity is reportable as follows:

| | 2012 £ | 2011 £ |
|---|---|---|
| **Analysis of revenue by category:** | | |
| Sale of garments | **3,255,241** | 3,506,031 |
| Commission receivable | **920,536** | 668,179 |
| | **4,175,777** | 4,174,210 |

Analysis of revenues by geographical market and customer location are as follows:

| | 2012 £ | 2011 £ |
|---|---|---|
| UK | **3,498,147** | 3,948,511 |
| Rest of the World | **677,630** | 225,699 |
| | **4,175,777** | 4,174,210 |

5. **Operating profit/(loss)**

| | 2012 £ | 2011 £ |
|---|---|---|
| Operating profit/(loss) has been arrived at after charging: | | |
| Amortisation of intangible assets | **1,489** | 909 |
| Depreciation of property, plant and equipment | **8,330** | 12,624 |
| Loss on disposal of property, plant and equipment | **20,278** | 275 |
| Reversal of rent provision no longer due | **(77,774)** | – |
| Loan from shareholders no longer repayable | **(30,000)** | – |
| Staff costs (see note 6 below) | **188,969** | 378,479 |
| Directors' emoluments (excluding pension costs) | **97,140** | 166,251 |
| Pension costs (see note 6 below) | **3,048** | 2,840 |

**Auditor remuneration**

During the year, the company obtained the following services from the company's auditor and its associates:

| | 2012 £ | 2011 £ |
|---|---|---|
| Fees payable to the company's auditor: | | |
| Audit of annual financial statements | **6,333** | 5,000 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Review of the interim financial statements | **2,666** | 8,500 |
| Taxation and other services | **–** | – |

6. **Staff numbers and costs**

| | 2012 £ | 2011 £ |
|---|---|---|
| Employee costs include: | | |
| Staff wages and salaries | **159,181** | 322,371 |
| Social security costs | **29,788** | 56,108 |
| Staff pension costs - defined contribution plans | **842** | 1,200 |
| Directors' pension costs - defined contribution plans | **2,206** | 1,640 |
| | **192,017** | 381,319 |

The average number of employees (including directors) during the year was:

| | 2012 Number | 2011 Number |
|---|---|---|
| Management and administration | **3** | 16 |

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

7. **Finance income**

| | 2012 £ | 2011 £ |
|---|---|---|
| Other interest | **272** | 58 |

8. **Finance costs**

| | 2012 £ | 2011 £ |
|---|---|---|
| Bank and factoring interest paid | **5,528** | 7,225 |
| Hire purchase interest paid | **517** | 215 |
| | **6,045** | 7,440 |

9. **Taxation for the year**

| | 2012 £ | 2011 £ |
|---|---|---|
| **Income tax expense** | | |
| **Current tax expense:** | | |
| UK corporation tax | **7,500** | – |
| **Total current tax** | **7,500** | – |
| **Reconciliation of current tax expense to accounting loss:** | | |
| Profit/(loss) before taxation | **247,226** | (156,449) |
| Notional taxation charge at the UK corporation tax rate of 26% (2011: 28%) | **64,279** | (43,806) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | **1,509** | 5,633 |
| Capital allowances in excess of depreciation | **5,560** | (3,701) |
| Unutilised tax losses not recognised as a deferred tax asset | **(63,848)** | 41,874 |
| **Total current tax charge for the year** | **7,500** | – |

The company had unused tax losses of £670,074 (2011 : £914,214) available to carry forward against future trading profits.

No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward .

10. **Property, plant and equipment**

| | Land and buildings leasehold £ | Fixtures fittings and equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2011 | 11,095 | 79,493 | 27,362 | 117,950 |
| Disposals | (11,095) | (61,325) | – | (72,420) |
| At 31 March 2012 | – | 18,168 | 27,362 | 45,530 |
| **Accumulated depreciation** | | | | |
| At 1 April 2011 | 2,012 | 57,254 | 9,765 | 69,031 |
| Charge for the year | 230 | 3,700 | 4,399 | 8,329 |
| On disposals | (2,242) | (49,900) | – | (52,142) |
| At 31 March 2012 | – | 11,054 | 14,164 | 25,218 |
| **Carrying amount** | | | | |
| At 31 March 2012 | – | 7,114 | 13,198 | 20,312 |
| At 31 March 2011 | 9,083 | 22,239 | 17,597 | 48,919 |

Assets held under hire purchase contracts have the following carrying amount:

**Motor vehicles**

| | 2012 £ | 2011 £ |
|---|---|---|
| Cost | **13,362** | 13,362 |
| Accumulated depreciation | **(4,593)** | (1,670) |
| Carrying amount | **8,769** | 11,692 |

| | Land and buildings leasehold £ | Fixtures fittings and equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2010 | 11,095 | 79,143 | 30,000 | 120,238 |
| Additions | – | 350 | 13,362 | 13,712 |
| Disposals | – | – | (16,000) | (16,000) |
| At 31 March 2011 | 11,095 | 79,493 | 27,362 | 117,950 |
| **Accumulated depreciation** | | | | |
| At 1 April 2010 | 1,457 | 49,949 | 13,126 | 64,532 |
| Charge for the year | 555 | 7,305 | 4,764 | 12,624 |
| On disposals | – | – | (8,125) | (8.125) |
| At 31 March 2011 | 2,012 | 57,254 | 9,765 | 69,031 |
| **Carrying amount** | | | | |
| At 31 March 2011 | 9,083 | 22,239 | 17,597 | 48,919 |
| At 31 March 2010 | 9,638 | 29,194 | 16,874 | 55,706 |

Assets held under hire purchase contracts have the following carrying amount:

**Motor vehicles**

| | 2011 £ | 2010 £ |
|---|---|---|
| Cost | 13,362 | – |
| Accumulated depreciation | (1,670) | – |
| Carrying amount | 11,692 | – |

**11. Intangible assets**

| | Trademarks 2012 £ | 2011 £ |
|---|---|---|
| **Cost** | | |
| At the start of the year | **8,795** | 3,300 |
| Additions | **950** | 5,495 |
| At the end of the year | **9,745** | 8,795 |
| **Amortisation** | | |
| At the start of the year | **3,529** | 2,620 |
| Charge for the year | **1,488** | 909 |
| At the end of the year | **5,017** | 3,529 |
| **Net book value** | | |
| At the end of the year | **4,728** | 5,266 |
| At the start of the year | **5,266** | 680 |

**12. Investment in subsidiary**

| | Shares in Subsidiary undertaking 2012 £ | 2011 £ |
|---|---|---|
| At the beginning of the year/end of the year | **865** | 865 |

Investment in group undertakings are recorded at cost, which is the fair value of the consideration paid.

**Holdings of more than 20%**

The company holds more than 20% of the share capital of the following company:

| Company | Country of registration or Incorporation | Class | Shares held % |
|---|---|---|---|
| **Subsidiary undertakings** | | | |
| FX Import Hong Kong Limited | Hong Kong | Ordinary | 100 |

The aggregate amount of capital and reserves and the results of the undertakings at 31 March 2012 were as follows:

| | Principal activity | Capital and Reserves £ | Profit for the year £ |
|---|---|---|---|
| FX Import Hong Kong Limited | Importing and distribution of garments | **69,337** | 24,850 |

**13. Inventories**

| | 2012 £ | 2011 £ |
|---|---|---|
| Finished goods and goods for resale | **135,477** | 13,902 |

**14. Trade and other receivables**

| | 2012 £ | 2011 £ |
|---|---|---|
| Trade receivables | 443,818 | 216,458 |
| Other receivables | 171,618 | 11,364 |
| Prepayments | 4,972 | 70,328 |
| Receivables from fellow group companies (note 23) | – | 13,038 |
| Receivables from subsidiary company (note 23) | 64,740 | 38,136 |
| | 685,148 | 349,324 |

The average credit period given for trade receivables at the end of the year is 39 days (2011: 40 days).

All amounts are due to be recovered within 12 months of the balance sheet date. The fair value of trade and other receivables is the same as the carrying value shown above.

The maximum exposure to credit risk for trade and other receivables is represented by their carrying amount. The company does not have a significant concentration of credit risk for its trade receivables because they are all factored and its customer base is large and unrelated.

There is a charge over the bank security deposit of £150,000 (2011: £Nil) which is included in other receivables.

**15. Trade and other payables**

| | 2012 £ | 2011 £ |
|---|---|---|
| Trade payables | **500,051** | 447,514 |
| Payables to parent undertaking (note 23) | **53,338** | 116,132 |
| Payables to fellow subsidiary undertakings (note 23) | **3,153** | 2,471 |
| Payables to related parties (note 23) | **295,167** | 34,561 |
| Social security and other taxes | **16,730** | 34,294 |
| Accrued expenses | **51,132** | 151,847 |
| | **919,571** | 786,819 |

Trade payables and accrued expenses mainly comprise of amounts owed for trading purchases and associated costs.

Included within trade payables are gross loans secured against trade receivable balances. These amounted to £254,681 (2011: £28,623).

All trade and other payables are due to be paid within 12 months of the balance sheet date. The fair value of trade and other payables are the same as the carrying value shown above.

**16. Hire purchase contracts and finance leases**

| | 2012 £ | 2011 £ |
|---|---|---|
| **Amounts payable are as follows:** | | |
| Within one year | **3,971** | 3,971 |
| In the second to fifth years | **2,446** | 6,416 |
| Less: Future interest charges | **(819)** | (1,335) |
| Present value of the obligations | **5,598** | 9,052 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(3,454)** | (3,454) |
| Amount due for settlement after 12 months | **2,144** | 5,598 |

The company's obligations under hire purchase contracts are secured by charges over the relevant assets.

**17. Borrowings**

| | 2012 £ | 2011 £ |
|---|---|---|
| Bank loan | **35,695** | – |
| Loan from parent undertaking (note 23) | **451,500** | 351,500 |
| Loans from related parties (note 23) | **62,000** | 154,000 |
| Loans from other creditors | **62,000** | – |
| | **611,195** | 505,500 |
| The borrowings are repayable as follows : | | |
| On demand within one year | **35,695** | – |
| In the third to fifth years inclusive | **575,500** | 505,500 |
| | **611,195** | 505,500 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(35,965)** | – |
| Amount due for settlement after 12 months | **575,500** | 505,500 |

**18. Deferred tax**

**Unrecognised deferred tax assets and liabilities**

Deferred tax assets have not been recognised in respect of the following items:

| | 2012 £ | 2011 £ |
|---|---|---|
| Tax losses | **174,219** | 255,980 |

Deferred tax liabilities have not been recognised in respect of the following items:

| | 2012 £ | 2011 £ |
|---|---|---|
| Original and reversal of temporary differences | **–** | 1,139 |

The net deferred tax assets have not been recognised in respect of the losses due to uncertainty of full and immediate utilisation of these losses.

**19. Share capital**

| | 2012 £ | 2011 £ |
|---|---|---|
| **Issued and fully paid** | | |
| 25,200 Ordinary 'A' shares of £1 each | **25,200** | 25,200 |

**20. Retained earnings**

| | 2012 £ | 2011 £ |
|---|---|---|
| Balance at the start of the year | **(902,947)** | (746,498) |
| Profit/(loss) for the year | **239,726** | (156,449) |
| Balance at the end of the year | **(663,221)** | (902,947) |

**21. Operating lease arrangements**

| | 2012 £ | 2011 £ |
|---|---|---|
| Minimum lease payments under operating leases recognised in the statement of comprehensive income for the year | – | 50,000 |

At the balance sheet date, the company had no outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2012 £ | 2011 £ |
|---|---|---|
| Within one year | **–** | 50,000 |
| In the second to fifth years inclusive | **–** | 150,000 |
| | **–** | 200,000 |

Operating lease payments represent rentals payable by the company.

**22. Notes to the cash flow statement**

| | 2012 £ | 2011 £ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) from operations | **252,999** | (149,067) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **8,330** | 12,624 |
| Amortisation of intangible assets | **1,489** | 909 |
| Loss on disposal of property, plant and equipment | **20,276** | 275 |
| **Operating cash flows before working capital** | **283,094** | (135,259) |
| (Increase)/decrease in stock | **(121,575)** | 50,608 |
| (Increase)/decrease in receivables | **(335,824)** | 305,219 |
| Increase/(decrease) in payables | **132,754** | (466,605) |
| **Cash used in operations** | **(41,551)** | (246,037) |

**23. Related party transactions**

During the year, the following transactions were carried out with Mr. C. R. Severs:

| | 2012 £ | 2011 £ |
|---|---|---|
| • Services provided to the company | | |
| Rent of building | **12,500** | 50,000 |

All transactions were at arms length and on normal commercial terms.

| | 2012 £ | 2011 £ |
|---|---|---|
| • Year end balances arising from services provided | | |
| Receivable/(payable) to Chris Severs (note 15) | **16,494** | (25,147) |
| • Loans from directors | | |
| Short term loan (note 15) | **–** | 9,414 |
| Long term loan (note 17) | **62,000** | 154,000 |
| | **62,000** | 163,414 |

The directors have given personal guarantees:

| | 2012 £ | 2011 £ |
|---|---|---|
| – in respect of bank facilities | **200,000** | 200,000 |

During the year, the company entered into the following transactions with related parties:

| | Sales/ FOB transfers/Rent/ Commission received | | Management charges/ Commission paid/Purchases/ expenses | | Amounts owed to/ (by) related party | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **£** | £ | **£** | £ | **£** | £ |
| Poeticgem Limited, UK | **–** | – | **–** | 66,000 | **504,838*** | 467,632* |
| Pacific Logistics Limited, UK | **–** | – | **22,651** | 14,666 | **3,153** | 2,471 |
| Norwest Industries Limited, Hong Kong | **29,273** | 63,040 | **37,480** | 29,458 | **12,984** | (13,038) |
| FX Import Hong Kong Limited. Hong Kong | **648,357** | 156,173 | **–** | – | **(64,740)** | (38,136) |
| Zamira Fashions Hong Kong Limited. Hong Kong | **–** | – | **282,184** | – | **282,184** | – |

The above companies are related as follows:

Poeticgem Limited is the parent company of FX Import Company Limited.

Pacific Logistics Limited is a fellow subsidiary company.

Norwest Industries Limited, Hong Kong and Zamira Fashions Hong Kong Limited, Hong Kong, are fellow subsidiaries of Global Textile Group Limited, parent company of Poeticgem Limited.

FX Import Hong Kong Limited is a wholly owned subsidiary of FX Import Company Limited.

The above balances are interest free and repayable on demand.

Poeticgem Limited has given an unlimited guarantee on certain of the banking facilities of FX Import Company Limited. At the balance sheet date, no exposure arises on this guarantee.

*This balance includes a long-term loan of £451,500 (2011: £351,500).

**24. Capital commitments**

The company has no significant capital commitments at 31 March 2012.

**25. Contingent liabilities**

At the balance sheet date, the company's bankers, Royal Bank of Scotland plc, have provided a guarantee on behalf of the company to HM Revenue and Customs amounting to £150,000. The company's maximum contingent liability under this guarantee as at 31 March 2012 is £150,000.

**26. Control**

The controlling party of the company is Poeticgem Limited by virtue of its 75% ownership of the ordinary share capital and overall board control.

The ultimate parent company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company registered in India. Pearl Global Industries Limited prepares group financial statements and copies can be obtained from Corporate Office: 446, Udyog Vihar, Phase-V, Gurgaon - 122 016 (Haryana), India.

Pearl Global Industries Limited is listed on the Bombay Stock Exchange and National Stock Exchange in India.

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2012.

**Principal activity**

The principal activity of the Company was the trading of garments. There was no significant change in the nature of the Company's principal activity during the year.

**Results and dividends**

The Company's profit for the year ended 31 March 2012 and its state of affairs at that date are set out in the financial statements on pages 4 to 17.

The directors do not recommend the payment of any dividend in respect of the year.

**Directors**

The directors of the Company during the year were:

Christopher Robert Severs

Deepak Kumar Seth

Pallak Seth

Payel Seth

In accordance with the Company's articles of association, all directors will retire by rotation and, being eligible, will offer themselves fur re-election at the forthcoming annual general meeting.

**Directors' interests**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**Directors' interests in contracts**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies or fellow subsidiaries was a party during the year.

**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**

Sd/-
Chairman
Hong Kong
18 May 2012

## Independent anditors' report

**To the shareholder of FX Import Hong Kong Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of FX Import Hong Kong Limited set out on pages 4 to 17, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2012, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Certified Public Accountants
Hong Kong
18 May 2012

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| **REVENUE** | 3 | **75,317,576** | 16,291,569 |
| Cost of sales | | **(62,074,277)** | (13,026,977) |
| Gross profit | | **13,243,299** | 3,264,592 |
| Other income | 3 | **40,878** | 101,421 |
| Selling and distribution costs | | **(12,558,832)** | (2,680,555) |
| Administrative expenses | | **(356,097)** | (116,367) |
| **PROFIT BEFORE TAX** | 4 | **369,248** | 569,091 |
| Income tax expense | 6 | **(60,750)** | (93,900) |
| **PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **308,498** | 475,191 |

## STATEMENT OF FINANCIAL POSITION

31 March 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Trade receivable | 7 | **12,069,624** | 5,409,668 |
| Prepayments | | **11,203** | – |
| Tax recoverable | | **32,974** | – |
| Cash and cash equivalents | | **1,178,193** | 333,247 |
| Total current assets | | **13,291,994** | 5,742,915 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | | **5,178,061** | 2,647,106 |
| Accrual and other payables | | **42,873** | 30,000 |
| Due to the immediate holding company | 9(ii) | **805,883** | 475,660 |
| Due to a fellow subsidiary | 9(ii) | **6,403,887** | 1,929,888 |
| Tax payable | | **–** | 107,469 |
| Total current liabilities | | **12,430,704** | 5,190,123 |
| Net assets | | **861,290** | 552,792 |
| **EQUITY** | | | |
| Issued capital | 8 | **10,000** | 10,000 |
| Retained profit | | **851,290** | 542,792 |
| Total equity | | **861,290** | 552,792 |

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2012

| | Issued capital HK$ | Retained profits HK$ | Total equity HK$ |
|---|---|---|---|
| At 1 April 2010 | 10,000 | 67,601 | 77,601 |
| Total comprehensive income for the year | – | 475,191 | 475,191 |
| At 31 March 2011 and at 1 April 2011 | 10,000 | 542,792 | 552,792 |
| Total comprehensive income for the year | – | 308,498 | 308,498 |
| At 31 March 2012 | 10,000 | 851,290 | 861,290 |

## STATEMENT OF CASH FLOWS

Year ended 31 March 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **369,248** | 569,091 |
| Adjustment for interest income | 3 | **(1,146)** | (1,173) |
| | | **368,102** | 567,918 |
| Increase in trade receivables | | **(6,659,956)** | (4,731,560) |
| Increase in prepayments | | **(11,203)** | – |
| Increase in trade payables | | **2,530,955** | 2,230,093 |
| Increase in an accrual and other payables | | **12,873** | – |
| Increase in an amount due to the immediate holding company | | **330,223** | 462,320 |
| Increase in an amount due to a fellow subsidiary | | **4,473,999** | 743,129 |
| Cash generated from/(used in) operations | | **1,044,993** | (728,100) |
| Interest received | | **1,146** | 1,173 |
| Hong Kong profits tax paid | | **(201,193)** | – |
| Net cash flows from/(used in) operating activities | | **844,946** | (726,927) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **844,946** | (726,927) |
| Cash and cash equivalents at beginning of year | | **333,247** | 1,060,174 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **1,178,193** | 333,247 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **1,178,193** | 333,247 |

## NOTES TO FINANCIAL STATEMENTS

31 March 2012

### 1. CORPORATE INFORMATION

FX Import Hong Kong Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 7/F, Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

During the year, the Company was engaged in the trading of garments.

The Company is a wholly-owned subsidiary of FX Import Co. Ltd, a company incorporated in the United Kingdom. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on the National Stock Exchange in India.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements are presented in Hong Kong dollars ("HK$") and have been prepared under the historical cost convention.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain new and revised HKFRSs became effective for the first time during the current financial year but are not applicable to the Company, and accordingly, they have had no impact on the Company's financial statements for the year ended 31 March 2012.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the year ended 31 March 2012, in these financial statements. The Company is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Financial instruments

*Financial assets*

The Company's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Company's financial liabilities are classified and accounted for as financial liabilities at amortised cost. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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 Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method.

Foreign currency transactions

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the dates when their fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss).

**3. REVENUE AND OTHER INCOME**

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold.

An analysis of other income is as follows:

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Foreign exchange gains, net | **39,713** | 100,248 |
| Interest income | **1,146** | 1,173 |
| Others | **19** | – |
| | **40,878** | 101,421 |

**4. PROFIT BEFORE TAX**

The Company's profit before tax is arrived at after charging auditors' remuneration of HK$90,000 (2011: HK$90,000).

**5. DIRECTORS' REMUNERATION**

None of the directors received any fees or emoluments in respect of their services rendered to the Company during the year (20II: Nil).

**6. INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Provision for the year | **60,926** | 93,900 |
| Over provision in prior years | **( 176)** | – |
| | **60,750** | 93,900 |

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory rate of 16.5% (2011: 16.5%) to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | **2012 HK$** | **%** | 2011 HK$ | % |
|---|---|---|---|---|
| Profit before tax | **369,248** | | 569,091 | |
| Tax at the statutory tax rate | **60,926** | **16.5** | 93,900 | 16.5 |
| Adjustments in respect of current tax of prior years | **( 176)** | **–** | – | – |
| Tax at the effective tax rate | **60,750** | **16.5** | 93,900 | 16.5 |

There was no material unprovided deferred tax in respect of the year and as at the end of the reporting period (2011: Nil).

**7. TRADE RECEIVABLES**

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days, extending up to 90 days for major customers. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Neither past due nor impaired | **11,938,880** | 5,209,047 |
| Less than one month past due | **130,744** | 200,621 |
| | **12,069,624** | 5,409,668 |

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have had a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

**8. SHARE CAPITAL**

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 10,000 ordinary shares of HK$1 each | **10,000** | 10,000 |

**9. RELATED PARTY TRANSACTIONS**

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

(i) The Company paid commissions of HK$4,198,477 (2011: HK$679,499) and HK$8,070,754 (2011: HK$1,947,933) to a fellow subsidiary and the immediate holding company, respectively. The commissions paid were in relation to sourcing services rendered by the fellow subsidiary and the immediate holding company, and were charged at rates agreed between the Company and the fellow subsidiary or the immediate holding company.

(ii) The balances with a fellow subsidiary and the immediate holding company are unsecured, interest-free and have no fixed terms of repayment.

**10. FAIR VALUE**

At the end of the reporting period, the carrying amounts of the Company's financial assets and financial liabilities approximated to their fair values.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. The fair values of trade receivables, cash and cash equivalents, trade payables, an accrual and other payables, and amounts due to a fellow subsidiary and immediate holding company approximated to their carrying amounts largely due to the short term maturities of these instruments.

The Company did not have any financial assets and liabilities measured at fair value as at the end of each reporting period.

**11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's exposure to foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

*Foreign currency risk*

The Company has transactional currency exposures. Such exposures mainly arise from sales or purchases in currencies (mainly British Pound Sterling ("GBP")) other than the functional currency of the Company. The Company manages its foreign currency risk by monitoring closely the movements in exchange rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the GBP exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Change in the GBP exchange rate % | Increase/ (decrease) in profit before tax HK$ | Increase/ (decrease) in equity HK$ |
|---|---|---|---|
| **31 March 2012** | | | |
| If HK$ weakens against GBP | 1 | 79,811 | 79,811 |
| If HK$ strengthens against GBP | (1) | (79,811) | (79,811) |
| 31 March 2011 | | | |
| If HK$ weakens against GBP | 1 | 44,709 | 44,709 |
| If HK$ strengthens against GBP | (1) | ( 44,709) | ( 44,709) |

*Credit risk*

The carrying amounts of cash and cash equivalents and trade receivables represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's cash and cash equivalents are deposited with creditworthy banks with no recent history of default. The Company has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. The maximum exposure for trade receivables is the carrying amount as disclosed in note 7 to the financial statements. The directors consider that the Company does not have a significant concentration of credit risk.

*Liquidity risk*

In the management of liquidity risk, the Company monitors and maintains a level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from group companies.

The Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, either have no fixed terms of repayment or are repayable within three months subsequent to the end of the reporting period.

*Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to its shareholder, return capital to the shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 31 March 2011.

**12. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012

The directors present their annual report and the audited financial statements for the year ended 31 March 2012.

**Principal activities**

The principal activity of the company is the provision of logistics services to the clothing industry .

**Results and dividends**

The results for the year are set out on page 6.

The directors do not recommend the payment of a dividend for the year.

**Directors**

The following directors have held office since 1 April 2011:

Mrs. Payel Seth

Mr. Anuj Banaik

Mrs. Faiza Habeeb Seth

Mr. Deepak Aggarwal (appointed 21 November 2011)

**Directors' interests**

The directors' interests in the shares of the company were as stated below:

| | Ordinary shares of £1 each | |
|---|---|---|
| | **31 March 2012** | 1 April 2011 |
| Mr. Anuj Banaik | – | – |
| Mrs. Payel Seth | – | – |
| Mrs. Faiza Habeeb Seth | – | – |
| Mr. Deepak Aggarwal | – | – |

**Auditor**

UHY Hacker Young was appointed auditor to the company and in accordance with Section 485 of the Companies Act 2006, a resolution proposing that it be reappointed as auditor will be put at a General Meeting.

**Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations .

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and estimates that are reasonable and prudent ;

– state whether applicable IFRSs as adopted by the EU have been followed , subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the financial information included on the ultimate parent company's website . Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

– so far as the director is aware, there is no relevant information of which the company's auditor is unaware; and

– the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This Information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

By order of the board

Sd/-
Mr. Deepak Aggarwal
Director

10 May 2012

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PACIFIC LOGISTICS LIMITED FOR THE YEAR ENDED 31 MARCH 2012

We have audited the financial statements of Pacific Logistics Limited for the year ended 31 March 2012, which comprise the income statement, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the directors and auditor**

As explained more fully in the Directors ' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) . Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

**Opinion on financial statements**

In our opinion, the financial statements :

– give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended ;

– have been properly prepared in accordance with IFRSs as adopted by the EU; and

– have been prepared in accordance with the requirements of the Companies Act 2006.

**Separate opinion in relation to IFRSs as issued by the IASB**

As explained in the accounting policies, the company has prepared financial statements that comply with IFRSs as adopted by the EU and with IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB .

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

– adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

– the financial statements are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit; or

– the directors were not entitled to prepare financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report.

Sd/-
**Vinod Kumar Vadgama (Senior Statutory Auditor)**
**for and on behalf of UHY Hacker Young** **10 May 2012**
**Chartered Accountants**
**Statutory Auditor**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **1,299,266** | 1,479,842 |
| Cost of revenue | | **(899,037)** | (1,160 ,097) |
| **Gross profit** | | **400,229** | 319,745 |
| **Operating expenses** | | | |
| Administration expenses | | **(376,511)** | (396,028) |
| Other operating income | | **3,957** | 3,903 |
| **Operating profit/(loss)** | 5 | **27,675** | (72,380) |
| Finance income | 7 | **157** | 300 |
| Finance costs | 8 | **(3,292)** | (1,787) |
| **Profit/(loss) before taxation** | 5 | **24,540** | (73,867) |
| Taxation | 9 | **(8,735)** | 12,745 |
| **Profit/(loss) for the financial year** | 18 | **15,805** | (61,122) |

None of the company's activities were discontinued in the year.

There are no other comprehensive income and expenses, other than those passing through the income statement.

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

| | Notes | 2012 £ | 2011 £ |
|---|---|---|---|
| **Non current assets** | | | |
| Property, plant and equipment | 10 | **135,427** | 175,240 |
| Deferred tax assets | 16 | **4,299** | 9,734 |
| Trade and other receivables | 11 | **288,204** | 350,830 |
| | | **427,930** | 535,804 |
| **Current assets** | | | |
| Trade and other receivables | 11 | **282,546** | 332,032 |
| Cash and cash equivalents | | **52,364** | 1,115 |
| | | **334,910** | 333,147 |
| **Total assets** | | **762,840** | 868,951 |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **(610,179)** | (684,792) |
| Current tax liabilities | | **(3,300)** | – |
| Bank overdrafts | 13 | **–** | (11,431) |
| Obligations under hire purchase contracts | 14 | **(3,087)** | (3,087) |
| | | **(616,566)** | (699,310) |
| Net current liabilities | | **(281,656)** | (366,163) |
| **Non current liabilities** | | | |
| Borrowings | I5 | **(14,170)** | (50,255) |
| Obligations under hire purchase contracts | 14 | **(11,336)** | (14,423) |
| | | **(25,506)** | (64,678) |
| **Total liabilities** | | **(642,072)** | (763,988) |
| **Net assets** | | **120,768** | 104,963 |
| **Shareholders' equity** | | | |
| Share capital | 17 | **10,000** | 10,000 |
| Retained earnings | 18 | **110,768** | 94,963 |
| **Total equity** | | **120,768** | 104,963 |

The financial statements were approved by the board of directors and authorised for issue on 10 May 2012 and were signed on its behalf by:

Sd/-
Mr. Deepak Aggarwal
Director
Company registration no. 04944346

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

| | Share capital £ | Retained earnings £ | Total £ |
|---|---|---|---|
| **Balance at 1 April 2010** | 10,000 | 156,085 | 166,085 |
| **Comprehensive income** | | | |
| Loss for the year | – | (61,122) | (61,122) |
| **Balance at 1 April 2011** | 10,000 | 94,963 | 104,963 |
| **Comprehensive income** | | | |
| Profit for the year | – | 15,805 | 15,805 |
| **Balance at 31 March 2012** | 10,000 | 110,768 | 120,768 |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | 2012 £ | 2011 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by operations | 20 | **111,558** | 174,264 |
| Finance costs | | **(3,292)** | (1,787) |
| Finance income | | **157** | 300 |
| Refund of income taxes paid | | **–** | 33,797 |
| **Net cash generated by operating activities** | | **108,423** | 206,574 |
| **Cash flows from investing activities** | | | |
| Payments to acquire property, plant and equipment | | **(6,571)** | (23,704) |
| Proceeds from sale of property, plant and equipment | | **–** | 1,800 |
| **Net cash used in investing activities** | | **(6,571)** | (21,904) |
| **Cash flows from financing activities** | | | |
| Capital element of hire purchase contracts repayments | | **(3,087)** | (3,087) |
| Repayments of loan from parent undertaking | | **(36,085)** | (135,437) |
| **Net cash used in financing activities** | | **(39,172)** | (138,524) |
| **Net increase in cash and cash equivalents** | | **62,680** | 46,146 |
| Cash and cash equivalents at the start of the year | | **(10,316)** | (56,462) |
| **Cash and cash equivalents at the end of the year** | | **52,364** | (10,316) |

| | 2012 £ | 2011 £ |
|---|---|---|
| **Cash and cash equivalents comprise:** | | |
| Cash at bank and in hand | **52,364** | 1,115 |
| Bank overdrafts | **–** | (11,431) |
| | **52,364** | (10,316) |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 1. General information

Pacific Logistics Limited is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The principal activity of the company is disclosed in the Directors' Report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRSs) and the Companies Act 2006 applicable to companies reporting under IFRSs.

**2.1 Going concern**

The financial statements have been prepared on a going concern basis even though at the Balance Sheet date, the company's current liabilities exceeded its current assets by £281,656 (2011: £366,163).

The directors consider the going concern basis to be appropriate because, in their opinion, the company will continue to obtain sufficient funding from its fellow group companies to enable it to pay its debts as they fall due. The company will also continue to obtain sufficient funding to enable it to pay its debts as they fall due. If the company were unable to obtain this funding, it would be unable to continue trading and adjustments would have to be made to reduce the value of assets to their realisable amount and to provide for any further liabilities which might arise.

**2.2 Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value of each asset over its expected useful life, as follows:

| | |
|---|---|
| Land and buildings leasehold | over the lease term |
| Plant and machinery | 25% reducing balance |
| Fixtures, fittings and equipment | 25%-33.33% reducing balance |
| Motor vehicles | 25% reducing balance |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term.

**2.3 Impairment**

The carrying values of the company's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

**2.4 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

– **Rendering of logistic services**

Revenue represents amounts receivable from the provision of logistics services net of discounts and value added tax. Revenue is recognised when the amount of revenue can be measured reliably and the economic benefits associated with the transaction have been received by the company.

**2.5 Leasing and hire purchase commitments**

Assets obtained under hire purchase contracts are capitalised as tangible assets and depreciated over their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

**2.6 Taxation**

Income tax expense represents the current tax payable and deferred tax provisions .

– **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profits as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

– **Deferred tax**

The company accounts for deferred tax using the liability method and as such, recognises all timing differences between the company's profits chargeable to tax and its results as shown in the financial statements. These timing differences arise from the inclusion of gains and losses for tax purposes in different periods from those in which they are recognised in the financial statements . Deferred tax assets are only recognised to the extent it is probable that the future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured on a non-discounted basis at rates of tax expected to apply in the periods in which the timing differences are expected to reverse.

**2.7 Foreign currencies**

Transactions in currencies , other than pounds sterling, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Foreign exchange differences arising on translation are included in the income statement in the period in which they arise.

**2.8 Related parties**

Related parties are individuals and companies where the individual or company 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.

**2.9 Financial instruments**

The company does not use or trade derivative financial instruments. Financial instruments that the company uses are non-derivative and are recognised initially at fair value. Subject to initial recognition, non-derivative financial instruments are measured as described as follows:

- **Trade and other receivables**

  Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

- **Trade and other payables**

  Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payables are stated at their nominal value.

- **Cash and cash equivalents**

  Cash for the purposes of the cash flow statement comprises cash at bank and in hand. Cash equivalents are short term liquid investments convertible into cash and are subject to insignificant risk of changes in value. Bank overdrafts which form part of cash and cash equivalents for the purpose of the cash flow statements are shown under current liabilities.

- **Borrowings**

  Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

**2.10 New IFRSs and interpretations not applied**

The IASB has issued the following standards and interpretations which have been endorsed by the European Union to be applied to financial statements with periods commencing on or after the following dates:

| | | Effective for period beginning on or after |
|---|---|---|
| IFRS 7 | Amendments enhancing disclosures about transfers of financial assets | I July 2011 |
| IAS 12 | Limited scope amendment (recovery of underlying assets) | 1 January 2012 |
| IFRS 9 | Financial Instruments - Classification and Measurement | 1 January 2013 |

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

**3. Significant judgements and estimates**

The preparation of the company's financial statements in conforming with IFRSs require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances. Information about such judgements and estimates is contained in either the accounting policies or in the notes to the financial statements. There are no significant estimates in the current year.

**4. Revenue**

The total revenue of the company for the year has been derived from its principal activity, excluding value added tax and is reportable as follows:

Analysis of revenue by geographical market and customer allocation as follows :

| | 2012 £ | 2011 £ |
|---|---|---|
| United Kingdom | **1,216,429** | 1,461,734 |
| Rest of the World | **82,837** | 18,108 |
| | **1,299,266** | 1,479,842 |

## 5. Operating profit/(loss)

| | 2012 £ | 2011 £ |
|---|---|---|
| Operating profit / (loss) has been arrived at after charging: | | |
| Staff costs (see note 6 below) | **263,608** | 362,109 |
| Directors' remuneration | **44,205** | – |
| Depreciation of property, plant and equipment | **46,384** | 65,937 |
| Loss on disposal of tangible fixed assets | **–** | 1,157 |
| Loss/ (profit) on foreign currency | **(1)** | 52 |

**Auditor remuneration**

During the year, the company obtained the following services from the company's auditor and its associates:

| | 2012 £ | 2011 £ |
|---|---|---|
| Fees payable to the company's auditor: | | |
| Audit of annual financial statements | **3,300** | 4,500 |
| Fees payable to the company's auditor and its associates for | | |
| Other services: | | |
| Review of the interim financial statements | **2,000** | 6,800 |
| Taxation and other services | **–** | 3,855 |

## 6. Staff numbers and costs

| | 2012 £ | 2011 £ |
|---|---|---|
| Employee costs include: | | |
| Staff wages and salaries | **233,283** | 326,800 |
| Social security costs | **30,325** | 35,309 |
| | **263,608** | 362,109 |

The average number of employees (including directors) during the year was:

| | 2012 Number | 2011 Number |
|---|---|---|
| Management and administration | **6** | 5 |
| Warehouse staff | **6** | 8 |
| | **12** | 13 |

## 7. Finance income

| | 2012 £ | 2011 £ |
|---|---|---|
| Interest on bank deposits | **157** | 2 |
| Other interest | **–** | 298 |
| | **157** | 300 |

## 8. Finance costs

| | 2012 £ | 2011 £ |
|---|---|---|
| Interest on bank overdrafts | **231** | 242 |
| Interest on obligations under hire purchase contracts | **870** | 870 |
| Other interest | **2,191** | 675 |
| | **3,292** | 1,787 |

## 9. Taxation for the year

| | 2012 £ | 2011 £ |
|---|---|---|
| **Income tax expense** | | |
| **Current tax expense** | | |
| UK corporation tax | **3,300** | – |
| **Deferred tax:** | | |
| Origination and reversal of temporary differences | **5,435** | (12,745) |
| **Total deferred tax** (note 16) | **5,435** | (12,745) |
| **Income tax expense** | **8,735** | (12,745) |
| **Reconciliation of current tax expenses to accounting loss:** | | |
| Profit/(Loss) before taxation | **24,540** | (73,867) |
| Notional taxation charge at the UK corporation tax rate of 26% (2011 : 28%) | **6,380** | (20,683) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | **260** | 2,033 |
| Depreciation in excess of capital allowances | **2,821** | 6,566 |
| Other tax adjustments | **(883)** | – |
| Tax losses surrendered to group companies | **–** | 11,446 |
| Losses available to be carried forward | **–** | 638 |
| Tax losses utilised | **(5,278)** | – |
| **Total current tax charge for the year** | **3,300** | – |

The company had unused tax losses of £Nil (2011 : £28,415) at 31 March 2012 available to carry forward against future trading profits.

## 10. Property, plant and equipment

| | Land and buildings leasehold £ | Plant and machinery £ | Fixtures, fittings and equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 April 2011** | 29,442 | 481,619 | 119,928 | 53,282 | 684,271 |
| Additions | – | 6,571 | – | – | 6,571 |
| At 31 March 2012 | 29,442 | 488,190 | 119,928 | 53,282 | 690,842 |
| **Accumulated depreciation** | | | | | |
| At 1 April 2011 | 29,442 | 355,859 | 96,073 | 27,657 | 509,031 |
| Charge for the year | – | 32,390 | 7,604 | 6,390 | 46,384 |
| At 31 March 2012 | 29,442 | 388,249 | 103,677 | 34,047 | 555,415 |
| **Carrying amount** | | | | | |
| At 31 March 2012 | – | 99,941 | 16,251 | 19,235 | 135,427 |
| At 31 March 2011 | – | 125,760 | 23,855 | 25,625 | 175,240 |

Assets held under hire purchase contracts have the following carrying amount:

| | Motor vehicles 2012 £ | Motor vehicles 2011 £ |
|---|---|---|
| Cost | **25,898** | 25,898 |
| Accumulated depreciation | **(13,455)** | (9,307) |
| Carrying amount | **12,443** | 16,591 |

| | Land and buildings leasehold £ | Plant and machinery £ | Fixtures, fittings and equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 1 April 2010** | 29,442 | 460,663 | 117,180 | 62,827 | 670,112 |
| Additions | – | 20,956 | 2,748 | – | 23,704 |
| Disposals | – | – | – | (9,545) | (9,545) |
| At 31 March 2011 | 29,442 | 481,619 | 119,928 | 53,282 | 684,271 |

| | Land and buildings leasehold £ | Plant and machinery £ | Fixtures, fittings and equipment £ | Motor vehicles £ | Total £ |
|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | |
| At 1 April 2010 | 23,552 | 316,066 | 85,347 | 24,717 | 449,682 |
| Charge for the year | 5,890 | 39,793 | 10,726 | 9,528 | 65,937 |
| Eliminated on disposals | – | – | – | (6,588) | (6,588) |
| At 31 March 2011 | 29,442 | 355,859 | 96,073 | 27,657 | 509,031 |
| **Carrying amount** | | | | | |
| At 31 March 2011 | – | 125,760 | 23,855 | 25,625 | 175,240 |
| At 31 March 2010 | 5,890 | 144,597 | 31,833 | 38,110 | 220,430 |

Assets held under hire purchase contracts have the following carrying amount:

| | Motor vehicles | |
|---|---|---|
| | 2011 £ | 2010 £ |
| Cost | 25,898 | 25,898 |
| Accumulated depreciation | (9,307) | (3,777) |
| Carrying amount | 16,591 | 22,121 |

**11. Trade and other receivables**

| | **2012 £** | 2011 £ |
|---|---|---|
| **Current assets** | | |
| Trade receivables | **36,579** | 154,068 |
| Other receivables | **77,174** | 4,982 |
| Receivables from parent and fellow subsidiary companies (note 22) | **60,038** | 67,115 |
| Receivables from fellow group companies (note 22) | **101,810** | 3,873 |
| Prepayments | **6,945** | 101,994 |
| | **282,546** | 332,032 |

All amounts are due to be recovered within 12 months of the balance sheet date. The fair value of trade and other receivables is the same as the carrying value shown above.

| | **2012 £** | 2011 £ |
|---|---|---|
| **Non-current assets** | | |
| Trade receivables | **288,204** | 350,830 |

The average credit period given for trade receivables at the end of the year is 90 days (2011: 125 days).

At 31 March 2012, the ageing analysis of trade receivables is as follows:

| | | Overdue but not impaired | |
|---|---|---|---|
| | Total £ | <3 months £ | >3 months £ |
| 2012 | 308,535 | 9,835 | 298,700 |
| 2011 | 504,898 | 71,602 | 433,296 |

The maximum exposure to credit risk for trade and other receivables is represented by their carrying amount. The company does not have a significant concentration of credit risk for its trade receivables because its customer base is large.

There is a charge over the bank security deposit of £75,000 (2011: £Nil) which is included in other receivables.

**12. Trade and other payables**

| | **2012 £** | 2011 £ |
|---|---|---|
| Trade payables | **53,756** | 139,621 |
| Payables to parent company (note 22) | **491,751** | 482,739 |
| Social security and other taxes | **47,826** | 26,426 |
| Accrued expenses | **16,846** | 36,006 |
| | **610,179** | 684,792 |

Trade payables, other payables and accrued expenses mainly comprise of amounts owed for trading purchases and associated costs.

All trade payables are due to be paid within 12 months of the balance sheet date. The fair value of trade and other payables is the same as the carrying value shown above.

**13. Bank overdrafts and borrowings**

| | **2012 £** | 2011 £ |
|---|---|---|
| Bank overdrafts | **–** | 11,431 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | **–** | 11,431 |

The weighted average of interest rates paid was as follows:

| | **2012 £** | 2011 £ |
|---|---|---|
| Bank overdraft | **–** | 2.5% |

The other principal features of the company's borrowings are as follows:

Bank overdrafts are repayable on demand. Overdrafts of £Nil (2011 : £11,431) have been secured by fixed and floating charges over the company's assets . The weighted average of interest rates on bank overdrafts is determined based on 2% plus the average bank base rate.

**14. Obligations under hire purchase contracts**

Amounts payable under hire purchase contracts :

| | **2012 £** | 2011 £ |
|---|---|---|
| Within one year | **3,957** | 3,957 |
| In the second to fifth years | **11,698** | 15,655 |
| | **15,655** | 19,612 |
| Less: future finance charges | **(1,232)** | (2,102) |
| Present value of hire purchase obligations | **14,423** | 17,510 |
| Less: amount due for settlement within 12 months | | |
| (shown under current liabilities) | **(3,087)** | (3,087) |
| Amount due for settlement after 12 months | **11,336** | 14,423 |

The fair value of the hire purchase contracts is approximately equal to the carrying amount. The company's obligations under hire purchase contracts are secured by charges over the relevant assets.

**15. Borrowings**

| | **2012 £** | 2011 £ |
|---|---|---|
| Loan from related party (note 22) | **14,170** | 50,255 |

This represents an unpaid interest free loan from Poeticgem Limited, the parent company.

The carrying value of all the company's long-term borrowings approximate to their fair value as at the balance sheet date.

**16. Deferred tax**

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | **2012 £** | 2011 £ |
|---|---|---|
| Deferred tax assets | **4,299** | 9,734 |

The gross movement on the deferred tax account is as follows:

| | **2012 £** | 2011 £ |
|---|---|---|
| At the start of the year | **9,734** | (3,011) |
| (Debited)/credited to income statement during the year | **(5,435)** | 12,745 |
| At the end of the year | **4,299** | 9,734 |

The movement in deferred income tax assets and liabilities during the year is as follows:

| | Decelerated/ (accelerated) tax depreciation £ | Tax losses £ | Total £ |
|---|---|---|---|
| **At 1 April 2010** | (9,055) | 6,044 | (3,011) |
| Tax credit to income statement | 10,833 | 1,912 | 12,745 |
| **At 31 March 2011** | 1,778 | 7,956 | 9,734 |
| Tax credit to income statement | – | (5,435) | (5,435) |
| **At 31 March 2012** | 1,778 | 2,521 | 4,299 |

**17. Share capital**

| | **2012** £ | 2011 £ |
|---|---|---|
| **Issued and fully paid** | | |
| 10,000 Ordinary shares of £1 each | **10,000** | 10,000 |

**18. Retained earnings**

| | **2012** £ | 2011 £ |
|---|---|---|
| Balance at the start of the year | **94,963** | 156,085 |
| Net profit/(loss) for the year | **15,805** | (61,122) |
| Balance at the end of the year | **110,768** | 94,963 |

**19. Operating lease arrangements**

| | **2012** £ | 2011 £ |
|---|---|---|
| Minimum lease payments under operating leases recognised in the income statement for the year | **100,998** | 101,928 |

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | **2012** £ | 2011 £ |
|---|---|---|
| Within one year | **100,998** | 101,928 |
| In the second to fifth years inclusive | **302,994** | 305,784 |
| | **403,992** | 407,712 |

Operating lease payments represent rentals payable by the company.

**20. Notes to the cash flow statement**

| | **2012** £ | 2011 £ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) from operations | **27,675** | (72,380) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **46,384** | 65,937 |
| Loss on disposal of tangible assets | **–** | 1,157 |
| **Operating cash outflow before working capital** | **74,059** | (5,286) |
| Decrease in receivables | **112,112** | 178,744 |
| (Decrease)/increase in payables | **(74,613)** | 806 |
| **Cash generated from operations** | **111,558** | 174,264 |

**21. Contingent liabilities**

At the balance sheet date, the company's bankers, Royal Bank of Scotland plc, have provided a guarantee on behalf of the company to HM Revenue & Customs amounting to £75,000. The company's maximum contingent liability under this guarantee as at 31 March 2012 is £75,000.

The company has extended an unlimited guarantee on the banking facilities of its parent company, Poeticgem Limited. This guarantee is supported by a debenture dated 17 August 2005. The company's maximum contingent liability under the guarantee as at 31 March 2012 is £9,985,964 .

**22. Related party transactions**

During the year, the company entered into the following transactions with related parties :

| | Revenue | | Purchases/expenses | | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|---|---|---|---|
| | **2012** £ | 2011 £ | **2012** £ | 2011 £ | **2012** £ | 2011 £ | **2012** £ | 2011 £ |
| Poeticgem Limited, UK | **967,434** | 1,168,697 | **76,735** | 54,330 | **–** | – | **505,921*** | 532,993* |
| Pacific Supply Chain Limited, UK | **–** | – | **–** | – | **–** | 7,531* | **–** | – |
| Pearl Global Industries Limited, India | **–** | – | **–** | – | **56,884*** | 59,584* | **–** | – |
| FX Import Company Limited, UK | **22,651** | 14,666 | **–** | – | **3,153*** | 2,471* | **–** | – |
| Norwest Industries Limited, Hong Kong | **48,885** | 1,402 | **–** | – | **58,502*** | 1,402* | **–** | – |
| Nor Lanka Manufacturing Limited, Hong Kong | **32,518** | – | **–** | – | **39,021*** | – | **–** | – |
| Casa Forma Limited, UK | **3,573** | – | **–** | – | **4,287** | – | **–** | – |

The immediate parent company of Pacific Logistics Limited, Pacific Supply Chain Limited and FX Import Company Limited is Poeticgem Limited.

The ultimate parent company of Poeticgem Limited is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited).

Norwest Industries Limited, Hong Kong and Nor Lanka Manufacturing Limited, Hong Kong, are fellow subsidiaries of Global Textile Group Limited, parent company of Poeticgem Limited.

Casa Forma Limited is a company controlled by common directors and became a wholly owned subsidiary of Multinational Textile Group Limited, the intermediate parent company of Poeticgem Limited, from 1 January 2012.

* These loans are interest free and repayable on demand.

• This includes £ 14,170 (2011: £50,255) interest free loan and is repayable on demand.

**23. Control**

The immediate parent company is Poeticgem Limited, a company registered in England and Wales and the ultimate parent company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company registered in India. Pearl Global Industries Limited prepares group financial statements and copies can be obtained from Corporate Office : 446, Udyog Vihar, Phase-V, Gurgaon - 122 016 (Haryana), India.

Pearl Global Industries Limited is listed on the Bombay Stock Exchange and National Stock Exchange in India.

## DETAILED TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 | | 2011 | |
|---|---|---|---|---|
| **Turnover** | **£** | **£** | £ | £ |
| Handling and transport | | **879,946** | | 1,050,991 |
| Storage | | **116,391** | | 75,587 |
| Shipping handling | | **302,929** | | 352,727 |
| Other income | | **–** | | 537 |
| | | **1,299,266** | | 1,479,842 |
| **Cost of Revenue** | | | | |
| Wages and salaries | **233,283** | | 326,800 | |
| Directors' remuneration | **44,205** | | – | |
| Employer's NI contributions | **30,325** | | 35,309 | |
| Temporary staff | **287,680** | | 460,063 | |
| Consumables | **35,744** | | 66,565 | |
| Carriage inwards and import duty | **19,461** | | 11,775 | |
| Hire of plant and machinery | **80,002** | | 77,701 | |
| Motor expenses re delivery | **134,903** | | 141,273 | |
| Waste collection | **1,044** | | 818 | |
| Depreciation on plant and machinery | **32,390** | | 39,793 | |
| | | **(899,037)** | | (1,160,097) |
| **Gross profit** | | **400,229** | | 319,745 |
| **Administrative expenses** | | **(376,511)** | | (396,028) |
| | | **23,718** | | (76,283) |
| **Other operating income** | | | | |
| Sundry income | **3,956** | | 3,955 | |
| Exchange differences | **1** | | (52) | |
| | | **3,957** | | 3,903 |
| **Operating profit/(loss)** | | **27,675** | | (72,380) |
| **Finance income** | | | | |
| Bank interest received | **157** | | 2 | |
| Interest received on tax refund | **–** | | 298 | |
| | | **157** | | 300 |
| **Finance costs** | | | | |
| Bank interest paid | **231** | | 242 | |
| Hire purchase interest payable | **870** | | 870 | |
| Interest on overdue tax paid | **–** | | 263 | |
| Other interest paid | **2,191** | | 412 | |
| | | **(3,292)** | | (1,787) |
| **Profit/(loss) before taxation** | | **24,540** | | (73,867) |

## SCHEDULE OF ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED 31 MARCH 2012

| | 2012 £ | 2011 £ |
|---|---|---|
| **Administrative expenses** | | |
| Rent re operating leases | **100,998** | 101,928 |
| Rates | **60,419** | 63,190 |
| Insurance | **19,654** | 27,932 |
| Light and heat | **41,290** | 37,660 |
| Cleaning | **286** | 1,947 |
| Repairs and maintenance | **20,615** | 12,427 |
| Printing, postage and stationery | **4,598** | 3,669 |
| Advertising | **72** | 1,300 |
| Telephone | **15,338** | 17,200 |
| Computer running costs | **6,539** | 6,214 |
| Motor running expenses | **16,140** | 10,684 |
| Travelling expenses | **6,696** | 6,349 |
| Legal and professional fees | **2,850** | 500 |
| Accountancy and book-keeping fees | **19,679** | 36,138 |
| Consultancy fees | **–** | 4,500 |
| Audit fees | **12,200** | 4,500 |
| Non audit fees | **6,000** | 10,665 |
| Bank charges | **3,050** | 3,224 |
| Staff welfare | **8,824** | 8,144 |
| Sundry expenses | **6,623** | 10,556 |
| Charitable donations | **80** | – |
| Bad debts | **8,629** | – |
| Staff training | **1,937** | – |
| Amortisation on short leasehold | **–** | 5,890 |
| Depreciation on plant and equipment | **7,604** | 10,727 |
| Depreciation on motor vehicles | **6,390** | 9,527 |
| Loss on disposal of tangible fixed assets | **–** | 1,157 |
| | **376,511** | 396,028 |

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012

The directors present their annual report and the audited financial statements for the year ended 31 March 2012.

**Principal activities and review of the business**

The principal activity of the company is that of import and distribution of knitwear clothing.

**Results and dividends**

The results for the year are set out on page 6.

**Directors**

The following directors have held office since I April 2011:

Mr Gary M Isaacs

Mr Pallak Seth

Mr Deepak K Seth

**Directors' interests**

The directors' interests in the shares of the company were as stated below:

| | Ordinary shares of £1 each | |
|---|---|---|
| | **31 March 2012** | **31 March 2011** |
| Mr Gary M Isaacs | – | 33 |
| Mr Pallak Seth | – | – |
| Mr Deepak K Seth | – | – |

**Auditor**

UHY Hacker Young was appointed auditor to the company and in accordance with Section 485 of the Companies Act 2006, a resolution proposing that it be re-appointed as auditor will be put at a General Meeting.

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently:

– make judgements and estimates that are reasonable and prudent :

– state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements: and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 . They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the financial information included on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditors**

Each of the persons who is a director at the date of approval of this report confirms that:

– so far as the director is aware, there is no relevant information of which the company's auditor is unaware; and

– the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**Responsibility statement**

Each of the persons who is a director at the date of approval of this report confirms that to the best of his or her knowledge and belief:

– the financial statements, prepared in accordance with IFRSs as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and

– the directors' report includes a fair view of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that they face.

By order of the board

Sd/
Mr Gary M Isaacs
Director

11 May 2012

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF POETIC KNITWEAR LIMITED FOR THE YEAR ENDED 31 MARCH 2012

We have audited the financial statements of Poetic Knitwear Limited for the year ended 31 March 2012, which comprise the income statement, balance sheet, the cash flow statement, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express and opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

**Opinion on financial statements**

In our opinion the financial statements:

– give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended:

– have been properly prepared in accordance with IFRSs as adopted by the EU and

– have been prepared in accordance with the requirements of the Companies Act 2006.

**Separate opinion in relation to IFRSs as issued by the IASB**

As explained in the accounting policies. the company has prepared financial statements that comply with IFRSs as adopted by the EU and with IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 required us to report to you if, in our opinion:

– adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us: or

– the financial statements are not in agreement with the accounting records and returns: or

– certain disclosures of directors' remuneration specified by law are not made: or

– we have not received all the information and explanations we require for our audit.

Sd/-

**Vinodkumar Vadgama (Senior Statutory Auditor)** 11 May 2012
**For and on behalf of UHY Hacker Young**
**Chartered Accountants**
**Statutory Auditor**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | | **–** | – |
| Cost of revenue | | **–** | – |
| **Gross loss** | | **–** | – |
| **Other income** | 4 | **281,355** | – |
| Administrative expenses | | **(99,555)** | (289,230) |
| **(Loss)/profit for the year before taxation** | 5 | **181,800** | (289,230) |
| Taxation | 7 | **–** | (163,530) |
| **(Loss)/profit for the financial year** | 11 | **181,800** | (452,760) |

None of the company's activities were discontinued in the year.

There are no other comprehensive income and expenses other than those passing through the income statement.

## STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

| | Notes | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|---|
| **Current assets** | | | |
| Trade and other receivables | 8 | **125,000** | 28 |
| Cash and cash equivalents | | **64,651** | 1,569 |
| **Total assets** | | **189,651** | 1,597 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **(881,017)** | (874,763) |
| **Net current liabilities** | | **(691,366)** | (873,166) |
| **Total liabilities** | | **(881,017)** | (874,763) |
| **Net assets** | | **(691,366)** | (873,166) |
| **Shareholders' equity** | | | |
| Share and capital | 10 | **100** | 100 |
| Retained earnings | 11 | **(691,466)** | (873,266) |
| **Total equity** | | **(691,366)** | (873,166) |

The financial statements were approved by the board of directors and authorised for issue on 11 May 2012 and were signed on its behalf by:

Sd/-
Mr Gary M Isaacs
Director
Company registration no. 06863593

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012

| | Share capital £ | Retained earnings £ | Total £ |
|---|---|---|---|
| **Balance at 31 March 2010** | 100 | (420,506) | (420,406) |
| **Comprehensive income** | | | |
| Loss for the year | – | (452,760) | (452,760) |
| **Balance at 1 April 2011** | 100 | (873,266) | (873,166) |
| **Comprehensive income** | | | |
| Profit for the year | – | 181,800 | 181,800 |
| **Balance at 31 March 2012** | **100** | **(691,466)** | **(691,366)** |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

| | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) for the year | **181,800** | (289,230) |
| Adjustment for: | | |
| Depreciation of property, plant and equipment | **–** | 4,236 |
| **Operating cash flows before movements in working capital** | **181,800** | (284,994) |
| Decrease/ (increase) in receivables | **(124,972)** | 2,514 |
| Increase in payables | **6,254** | 283,843 |
| **Net cash generated by operating activities** | **63,082** | 1,363 |
| **Net increase in cash and cash equivalents** | **63,082** | 1,363 |
| Cash and cash equivalents at the start of the year | **1,569** | 206 |
| **Cash and cash equivalents at the end of the year** | **64,651** | 1,569 |
| **Cash and cash equivalents comprise:** | | |
| Cash at bank and in hand | **64,651** | 1,569 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

**1. General information**

Poetic Knitwear Limited is a company incorporated in England and Wales. The address of the registered office and principal activity of the company is given on pages 1 and 2.

These financial statements are presented in pound sterling because that is the currency of the primary economic environment in which the company operates.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below.

**Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRSs), and the Companies Act 2006 applicable to companies reporting under IFRSs.

**2.1 Going concern**

The financial statements have been prepared on a going concern basis even though at the Balance Sheet date the company 's current liabilities exceeded its current assets by £691,366.

The directors consider the going concern basis to be appropriate because in their opinion, the company will continue to obtain sufficient funding from its fellow group companies to enable it to pay its debs as they fall due. If the company were unable to obtain this funding , it would be unable to continue trading and adjustments would have to be made to reduce the value of assets to their realisable amount and to provide for any further liabilities which might arise.

**2.2 Property, plant and equipment**

Property, plant and equipment are stated at cost net of accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | | |
|---|---|---|
| Land and buildings leasehold | - | over lease term for short lease |
| Fixtures, fittings and equipment | - | 25% reducing balance |

**2.3 Taxation**

Income tax expense represents the current tax payable and deferred tax provisions.

– **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profits as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable of deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

– **Deferred tax**

The company accounts for deferred tax using the liability method and as such recognises all timing differences between the company's profits chargeable to tax and its results as shown in the financial statements. These timing differences arise from the inclusion of gains and losses for tax purposes in different periods from those in which they are recognised in the financial statements. Deferred tax assets are only recognised to the extent it is probable that the future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measure on a nondiscounted basis at rates of tax expected to apply in the periods in which the timing differences are expected to reverse.

**2.4 Foreign currencies**

Transactions in currencies other than in pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange differences arising on translation are included in the income statement in the period in which they arise.

**2.5 Related parties**

Related parties are individuals and companies where the individual or company 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.

**2.6 Financial instruments**

The company does not use or trade derivative financial instruments. Financial instruments that the company uses are non-derivative and are recognised initially at fair value. Subject to initial recognition non-derivative financial instruments are measured as described as follows:

– **Other receivables**

Other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

– **Trade and other payables**

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payables are stated at their nominal value.

– **Cash and cash equivalents**

Cash for the purpose of the statement of cash flows, comprises cash at bank and in hand. Cash equivalents are short term liquid investments convertible into cash and are subject to insignificant risk of change in value. Bank overdrafts which form part of cash and cash equivalents for the purpose of the statement of cash flows are shown under current liabilities.

**2.7 New IFRSs and interpretations not applied**

The IASB has issued the following standards and interpretations which have been endorsed by the European Union to be applied to financial statements with periods commencing on or after the following dates:

| | | Effective for period beginning on or after |
|---|---|---|
| IFRS 7 | Amendments enhancing disclosures about transfers of financial assets | 1 July 2011 |
| IAS 12 | Limited scope amendment (recovery of underlying assets) | 1 January 2012 |
| IFRS 9 | Financial Instruments - Classification and Measurement | 1 January 2013 |

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

**3. Significant judgements and estimates**

The preparation of the company's financial statements in conforming to IFRSs require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. Theses judgements and estimates are based on management's best knowledge of the relevant facts and circumstances. Information about such judgements and estimates is contained in either the accounting policies or in the notes to the financial statements . There are no significant estimates in the current year.

**4. Other Income**

| | **2012** £ | 2011 £ |
|---|---|---|
| Other Income | **281,355** | – |

**5. Operating profit/ (loss)**

| Operating profit/ (loss) is stated after charging: | **Year ended 31 March 2012** £ | Year ended 31 March 2011 £ |
|---|---|---|
| Depreciation on property, plant and equipment | **–** | 4,236 |
| **Auditor remuneration** | | |
| During the year the company obtained the following services from the company's auditor and its associates: | | |
| Fees payable to the company's auditor: | | |
| Audit of annual financial statements | **2,000** | 2,850 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Tax and other services | **–** | 505 |
| | **2,000** | 3,355 |

**6. Staff numbers and costs**

| | **2012** £ | 2011 £ |
|---|---|---|
| Employee costs include: | | |
| Staff wages and salaries | **–** | 76,469 |
| Directors' remuneration | **88,333** | 175,000 |
| Social security costs | **7,725** | 30,082 |
| | **96,058** | 281,551 |

The average number of employees (including directors) during the year was :

| | **No.** | No. |
|---|---|---|
| Designers | **–** | 1 |
| Sales | **–** | 1 |
| Technicians | **–** | 1 |
| Management and administration | **3** | 3 |
| | **3** | 6 |

7. **Taxation for the year**

| | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|
| **Income tax expense** | | |
| **Current tax expense:** | | |
| UK corporation tax | – | – |
| **Total current tax** (see below) | – | – |
| **Deferred tax:** | | |
| Reversal and origination of temporary differences | – | (163,530) |
| **Total deferred tax** | – | (163,530) |
| **Income tax expense in income statement** | – | (163,530) |
| **Reconciliation of current tax expense to accounting loss** | | |
| Profit/(loss) before taxation | 181,800 | (289,230) |
| National taxation charge at the UK corporation tax | | |
| Rate of 26% (2011: 28%) | 47,268 | (80,984) |
| Tax effects on: | | |
| Excess of capital allowances over depreciation | – | 1,228 |
| Losses available to be carried forward | (47,268) | – |
| Tax losses not recognised as a deferred tax asset | – | 79,756 |
| **Total current tax charge for the year** | – | – |

The company has unused tax losses of £691,617 (2011: £873,417) available for carry forward against future trading profits. On the basis of these financial statements no provision has been made for corporation tax.

No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward.

8. **Trade and other receivables**

| | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|
| Other receivables | – | 28 |
| Receivable from group companies | 125,000 | – |
| | 125,000 | 28 |

All amounts are due to be recovered within 12 months of the balance sheet date. The fair value of all trade and other receivables is the same as the carrying value shown above.

9. **Trade and other payables**

| | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|
| Trade payables | – | 105 |
| Payable to parent company (note 12) | 879,017 | 865,497 |
| Social security and other taxes | – | 7,661 |
| Accrued expenses | 2,000 | 1,500 |
| | 881,017 | 874,763 |

Trade payables and accrued expenses mainly comprise of amounts owed for administrative costs.

All trade and other payables are due to be paid within 12 months of the balance sheet date. The fair value of all trade and other payables is the same as the carrying value shown above.

10. **Share capital**

| | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|
| **Issued and fully paid** | | |
| 100 Ordinary shares of £1 each | 100 | 100 |

11. **Retained earnings**

| | Year ended 31 March 2012 £ | Year ended 31 March 2011 £ |
|---|---|---|
| Balance at the start of the year | (873,266) | (420,506) |
| Net profit/(loss) for the year | 181,800 | (452,760) |
| Balance at the end of the year | (691,466) | (873,266) |

12. **Related party transactions**

During the year, the company entered into the following transactions with related parties:

| | Other income received | | Amounts owed to/ (by) related party | |
|---|---|---|---|---|
| | 2012 £ | 2011 £ | 2012 £ | 2011 £ |
| Poeticgem Limited, UK | – | – | 879,017 | 865,497 |
| Nor Lanka Manufacturing Limited, Hong Kong | 281,250 | – | (125,000) | – |

The above companies are related as follows:

Poetic Knitwear Limited is 100% owned by Poeticgem Limited.

Nor Lanka Manufacturing Limited, Hong Kong is a subsidiary of Norwest Industries, which is a fellow subsidiary of Global Textile Group Limited, the parent company of Poeticgem Limited.

The above balances are interest free and repayable on demand.

13. **Control**

The immediate parent company is Poeticgem Limited, a wholly owned subsidiary of Global Textile Group Limited, a company registered in Mauritius.

The ultimate parent company of Global Textile Group Limited is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company registered in India. Pearl Global Industries Limited prepares group financial statements and copies can be obtained from Corporate Office: 446, Udyog Yihar, Phase V, Gurgaon - 122016 Haryana, India.

Pearl Global Industries Limited is listed on the Bombay Stock Exchange and National Stock Exchange in India.

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of **POETICGEM (CANADA) LTD.**

I have audited the accompanying financial statements of Poetlcgcm (Canada) Ltd., which comprise of the balance sheet as at March 31, 2012 and the statement of comprehensive income, retained earnings and cash flow statements for the year then ended and it summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that arc free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements arc free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of tho financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Poeticgem (Canada) Ltd. as at March 31, 2012 and its financial performance and cash flows for the year ended March 31. 2012 in accordance with International Financial Reporting Standards.

Oakville, Ontario
April 15, 2012

Sd/-
**RAMAN AYYAR**
Chartered Accountant
Licensed Public Accountant

## BALANCE SHEET AS AT MARCH 31, 2012

| | 2012 $ | 2011 $ |
|---|---|---|
| **ASSETS** | | |
| **NON CURRENT:** | | |
| Equipment - Notes 2(d), (f) and 4 | **13,897** | 9,303 |
| | **13,897** | 9,303 |
| **CURRENT:)** | | |
| Cash - Notes 2(g) and (h) | **1,178,991** | 203,813 |
| Accounts receivable - Notes 2(f), (g) and (h) | **1,170,493** | 376,220 |
| Inventory - Notes 2(c), (f) and 3 | **1,982,251** | 527,843 |
| Prepaid | **3,376** | 3,376 |
| Advances receivable - Notes - 2(e), (g), (h) and 5 | **393,322** | 20,344 |
| | **4,728,433** | 1,131,596 |
| | **4,742,330** | 1,140,899 |
| **EQUITY** | | |
| **Net Equity / (DEFICIT) - page 4** | **96,961** | (5,135) |

| | 2012 $ | 2011 $ |
|---|---|---|
| **LIABILITIES** | | |
| **CURRENT:** | | |
| Accounts payable and accrued liabilities - Notes 2(e), (t). (g), (h) and 5 | **359,903** | 153,163 |
| Income taxes payable | **41,454** | 9,850 |
| Advances payable - Notes- 2(e), (g), (h) and 5 | **4,244,012** | 983,021 |
| | **401,357** | 163,013 |
| **COMMITMENTS:** - Note 6 | **4,742,330** | 1,140,899 |

**APPROVED ON BEHALF OF THE BOARD**

Sd/-

Rohit Girotra
Director

To be read in conjunction with attached Notes and Auditor's Report dated April 15, 2012.

## STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended March 31, 2012

| | 2012 $ | 2011 $ |
|---|---|---|
| SALES - Notes 1, 2(b), 5 and 7 | **5,343,764** | 1,385,397 |
| **COST OF SALES** | | |
| Opening inventory -Notes 2(c) and (f) | **527,843** | – |
| Purchases - Note 5 | **6,272,961** | 1,654,850 |
| Warehousing | **132,996** | 28,808 |
| Distribution Charges | **135,660** | 49,165 |
| Testing charges | **44,648** | 23,511 |
| Discounts to Customers | **27,017** | – |
| Miscellaneous | **18,951** | – |
| Freight forwarding | **974** | 76,821 |
| Less: Closing inventory - Note 2(c) and (f) | **(1,982,251)** | (527,843) |
| | **5,178,799** | 1,305,312 |
| **GROSS PROFIT FROM SALES** | **164,965** | 80,085 |
| **COMMISSION** - Notes 1, 2(b), 5 and 7 | **695,378** | 642,239 |
| **GROSS PROFIT** | **860,343** | 722,324 |
| **SELLING AND ADMINISTRATIVE EXPENSES:** | | |
| Wages and benefits | **301,040** | 243,455 |
| Product design and development. Note 5 | **158,215** | 73,720 |
| Travel and entertainment | **49,151** | 46,886 |
| Rent - Note 6 | **41,087** | 40,503 |
| Design and samples | **31,886** | 68,612 |
| Head Office expenses - Note 5 | **29,584** | 49,473 |
| Courier | **17,156** | 16,894 |
| Insurance | **14,911** | 12,285 |
| General and office - Note 5 | **15,146** | 18,094 |
| Professional fees | **12,225** | 9,500 |
| Inspection | **9,207** | 10,041 |
| Advertising and promotion | **7,686** | 8,182 |
| Telephone | **6,833** | 8,515 |
| Freight non recoverable | **–** | 32,233 |
| Supplies | **–** | 8,026 |
| Marketing commission | **–** | 7,490 |
| Amortization- Notes 2(d) and (f) | **3,561** | 2,805 |
| | **697,688** | 656,714 |

| | 2012 $ | 2011 $ |
|---|---|---|
| **INCOME,** from operations for the period | **162,655** | 65,610 |
| Add: Unrealized exchange (loss) I gain- Notes 2(e) and (h) | **(19,105)** | 31,292 |
| **INCOME,** before income taxes for the period | **143,550** | 96,902 |
| Less: Income tax expense - Note 8 | **(41,454)** | 11,105) |
| **COMPREHENSIVE INCOME,** for the period | **102,096** | 85,797 |

To be read in conjunction with attached Notes and Auditor's Report dated Apri115, 2012.

## STATEMENT OF CHANGES IN EQUITY

For the Year Ended March 31, 2012

| | Issued and paid-up shares (100 common) (Authorized - Unlimited) $ | Retained Earnings $ | Total $ |
|---|---|---|---|
| **BALANCE,** AT APRIL 1, 2010 | 100 | (91,032) | (90,932) |
| **TOTAL COMPREHENSIVE (LOSS),** for the period April 1, 2010 to June 30, 2010 | – | (74,935) | (74,935) |
| **BALANCE,** AT JUNE 30, 2010 | 100 | (165,967) | (165,867) |
| **TOTAL COMPREHENSIVE INCOME,** for the period - July 1, 2010 to Sept. 30, 2010 | – | 74,666 | 74,666 |
| **BALANCE,** AS AT SEPTEMBER 30, 2010 | 100 | (91,301) | (91,201) |
| **TOTAL COMPREHENSIVE INCOME,** for the period - Oct.1, 2010 to Dec. 31, 2010 | – | 67,723 | 67,723 |
| **BALANCE,** AS AT DECEMBER 31, 2010 | 100 | (23,578) | (23,478) |
| **TOTAL COMPREHENSIVE INCOME,** for the period - Jan.1, 2011 to March 31, 2011 | – | 18,343 | 18,343 |
| **BALANCE,** AS AT MARCH 31, 2011 | 100 | (5,235) | (5,135) |
| **TOTAL COMPREHENSIVE INCOME,** for the period - April 1, 2011 to June 30, 2011 | – | 24,184 | 24,184 |
| **BALANCE,** AS AT JUNE 30, 2011 | 100 | 18,949 | 19,049 |
| **TOTAL COMPREHENSIVE INCOME,** for the period - July 1, 2011 to Sep.30, 2011 | – | 83,873 | 83,873 |
| **BALANCE,** AS AT SEPTEMBER 30, 2011 | 100 | 102,822 | 102,922 |
| **TOTAL COMPREHENSIVE INCOME,** for the period - Oct, 01, 2011 to Dec. 31, 2011 | – | 34,292 | 34,292 |
| **BALANCE,** AS AT DECEMBER 31, 2010 | 100 | 137,114 | 137,214 |
| **TOTAL COMPREHENSIVE INCOME,** for the period - Jan, 01, 2012 to Mar. 31, 2012 | – | (40,253) | (40,253) |
| **BALANCE,** AS AT MARCH 31, 2012 | 100 | 96,861 | 96,961 |

To be read in conjunction with attached Notes and Auditor's Report dated April 15, 2012.

## STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2012

| **CASH FLOWS FROM OPERATING ACTIVITIES:** | 2012 $ | 2011 $ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Comprehensive income - page 3 | **102,096** | 85,797 |
| Cash flows provided by or used in: | | |
| - Amortization | **3,561** | 2,805 |
| - Income tax expense | **41,454** | 11,105 |
| | **147,111** | 99,707 |

| **CASH FLOWS FROM OPERATING ACTIVITIES:** | 2012 $ | 2011 $ |
|---|---|---|
| Change in: | | |
| - accounts receivable | **(794,273)** | (376,220) |
| - prepaid and employee advance | **-** | 5,464 |
| - inventory | **(1,454,408)** | (527,843) |
| - trade payables | **206,740** | 140,672 |
| - advances receivable | **(372,977)** | 110,551 |
| - advances payable | **3,260,991** | 615,536 |
| | **993,184** | 67,867 |
| Income tax (paid) / refunded | **(9,851)** | 73,379 |
| Net Cash (used in ) / from Operating Activities | **983,333** | 141,246 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of equipment | **(8,155)** | (742) |
| Net Cash (used in) Investing Activities | **(8,155)** | (742) |
| **CHANGE IN CASH AND EQUIVALENTS,** during the period | **975,178** | 140,504 |
| **CASH AND EQUIVALENTS,** beginning of period | **203,813** | 63,309 |
| **CASH AND EQUIVALENTS,** end of period | **1,178,991** | 203,813 |

To be read in conjunction with attached Notes and Auditor's Report dated April 15, 2012.

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

1. **Nature of business operation:**

   The company is incorporated under laws of Ontario, Canada and is a wholly owned subsidiary of Poeticgem Ltd, a company incorporated under the laws of the United Kingdom. It procures sales orders on behalf of a foreign affiliate for a commission and buys and sells goods on its own account.

2. **Accounting Policies:**

   (a) Basis of presentation:

   The financial statements have been prepared in accordance with International Financial Reporting Standards.

   (b) Income recognition:

   Revenue on sale of goods is recognized upon delivery of goods and when recovery is reasonably certain.

   Revenue on commissions is recognized at the time the foreign affiliate invoices the customers.

   (c) Inventory:

   Inventory includes goods in transit and is valued at lower of cost or net realizable value.

   (d) Equipment and amortization

   Equipment is carried at cost less accumulated amortization. Amortization is provided on the diminishing balance basis using the following annual rates:

   | | | |
   |---|---|---|
   | Furniture and fixtures | – | 20% |
   | Computers | – | 30% |

   (e) Foreign Currency Translation:

   Monetary assets in foreign currencies have been translated at exchange rates in effect at the end of the fiscal period. Items of revenue and expense are translated at the exchange rates on the dates the transactions took place. Exchange gains or losses from such translation practices are reflected in the income statement.

   (f) Accounting Estimates:

   The preparation of financial statements in conformity with International Financial Reporting Standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

   (g) Financial Instruments

   The company's financial instruments consist of cash and deposits, accounts receivable, accounts payable and accrued liabilities, advances receivable and payable. The company initially measures its financial instruments at cost which is equal to their fair values, except for certain non-arm's length transactions that are measured at exchange rates agreed to between the parties. Financial assets measured at cost are tested for impairment at the end of each year and the amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement and the amount of the reversal is recognized in net income. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost.

(h) Key Risks and Uncertainties:

(i) Currency Risk:

The company is owed by its related company on account of commission income earned in US Dollars and owes another related company for part of its purchases of goods in US Dollars. The company is owed by the parent company in British Pounds As a result the company's receivable I payable from/to the related companies are subject to risk of foreign currency movements. Since the receivable/payable are to related parties the exchange risk is managed at the related companies' level. - Note 5.

(ii) Liquidity Risk:

The company's receivables are from one customer and a related company. The major payables are to related companies and as such all of the operations are funded by related companies. The company mitigates the liquidity risk by relying on the related parties for their working capital requirements and by strong follow up on its accounts receivable.

(iii) Market risk;

The company's commission and sales income is dependant on sales to one customer and there is constant pressure on margins to be competitive. The company is constantly trying to mitigate the risk by increasing the customer base.

(iv) Credit Risk:

There is a concentration of credit risk in that all of the income is earned by procuring orders from and selling goods, to one customer. - Note 5.

(v) Interest rate risk:

All of the company's fund requirements are met by the related companies and as such this risk is managed at the related companies' level.

(vi) Equity risk:

The company has no exposure to this risk since it does not have any such assets.

(i) Currency:

All amounts stated in these financial statements are in Canadian dollars.

**3. Inventory:**

Inventory includes goods in transit $1,215,395 (2011 - $499,213).

**4. Equipment:**

| | Furniture and Equipment $ | Computers $ | Total $ |
|---|---|---|---|
| **Cost:** | | | |
| At April 1, 2011 | 13,117 | 21,177 | 34,294 |
| Additions | – | 8,155 | 8,155 |
| At March 31, 2012 | 13,117 | 29,332 | 42,449 |
| **Accumulated Amortization:** | | | |
| At April I, 2011 | 8,918 | 16,073 | 24,991 |
| Additions | 904 | 2,657 | 3,561 |
| At March 31, 2012 | 9,822 | 18,730 | 28,552 |
| **Carrying Amount** | | | |
| At March 31, 2012 | 3,295 | 10,602 | 13,897 |
| At March 31, 2011 | 4,199 | 5,105 | 9,303 |
| **Cost:** | | | |
| At April 1, 2010 | 13,117 | 20,435 | 33,551 |
| Additions | – | 743 | 743 |
| At March 31, 2011 | 13,117 | 21,178 | 34,294 |
| **Accumulated Amortization:** | | | |
| At April 1, 2010 | 8,141 | 14,045 | 22,186 |
| Additions | 777 | 2,028 | 2,805 |
| At March 31, 2011 | 8,918 | 16,073 | 24,991 |
| **Carrying Amount** | | | |
| At March 31, 2011 | 4,199 | 5,105 | 9,303 |
| At March 31, 2010 | 4,976 | 6,390 | 11,365 |

**5. Related Party Transactions:**

During the period the related party transactions were as follows:

| | Commission earned $ | Purchase/ Expenses paid $ | Amounts owed by related parties $ | Amount owed to related parties $ |
|---|---|---|---|---|
| Norwest Industries Limited, HK | | | | |
| March 31, 2012 | **695,378** | **–** | **393,322** | **–** |
| March 31, 2011 | 636,760 | – | – | 72,592 |
| Poeticgem Limited, UK | | | | |
| March 31, 2012 | **–** | **29,584** | **–** | **169,962** |
| March 31, 2011 | – | 49,473 | 20,344 | – |
| Simple Approach Ltd., Bangla Desh | | | | |
| March 31, 2012 | **–** | **6,317,609** | **–** | **4,074,050** |
| March 31, 2011 | – | 1,678,361 | – | 910,429 |
| House of Pearl Fashion US Ltd, | | | | |
| March 31, 2012 | **–** | **841** | **–** | **2,602** |
| March 31, 2011 | – | 1,761 | – | 1,761 |

The above corporations are related as follows:

Poeticgem Limited is the immediate parent company of this company, Poeticgem Limited, Norwest Industries Limited, Simple Approach Ltd, and House of Pearl Fashion US Ltd. are all subsidiaries of Global Textile Limited, a foreign corporation, The advances are due on demand, unsecured, non-interest bearing, with no fixed terms of repayment.

**6. Commitments:**

The company is lessee of its premises under a contract expiring December 2013. The minimum aggregate rent payable during the remainder of the contract is as follows:

| | $ |
|---|---|
| 2012 | 41,076 |
| 2013 | 30,807 |
| | 71,883 |

**7. Economic Dependence: - Note 1(h)(iv)**

All of the income is earned by procuring orders/ selling goods to one customer.

**8. Income taxes:**

| | | Dec. 31, 2011 $ | | Dec. 31, 2010 $ |
|---|---|---|---|---|
| Net income / (loss) for the year | | 102,096 | | 85,797 |
| Income tax (expense) / recovery | | (41,4541 | | (11,105) |
| Income / (loss) before taxes | | 143,550 | | 96,902 |
| Income tax using domestic lax rate | 27.75 % | 39,832 | (30.14)% | (29,206) |
| Non deductible meals and adjustments | 1.18 % | 1,694 | (1.20)% | (1,158) |
| Difference between tax and book amortization | (0.05)% | (72) | 0.11 % | 102 |
| Adjustments to tax provision | – % | – | (1.48)% | (1,435) |
| Losses carry forward | – % | – | 21.25 % | 20,592 |
| Total effective (tax) I recovery | 28.88 % | 41,454 | (11.46)% | (11,105) |

**9. Prior Year Figures:**

Prior year figures are regrouped to conform with current year presentation.

## DIRECTORS' REPORT

The directors are pleased to present their report together with the audited financial statements of Razamtazz Limited (the "Company") for the year ended 31 March 2012.

**Principal activity**

The principal activity of the Company is investing in properties.

**Results and dividend**

The results for the year are shown on page 5.

The directors do not recommend the payment of dividend for the year under review. (2011: nil)

**Statement of Directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial period giving a true and fair view of the state of affairs of the Company and of the profit or loss of the Company. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern on the year ahead.

By order of the Board of Directors

Sd/-
Director

Date: 25 May 2012

## Auditors' report to the shareholders of Razamtazz Limited

**Report on the Financial Statements**

We have audited the financial statements of Razamtazz limited, which comprise of the statement of financial position at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's shareholders, as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act 2001, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements on pages 5 to 21 give a true and fair view of the financial position of the Company at 31 March 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Sd/-

Lancasters,
Chartered Accountants
14, Lancaster Court
Lavoquer Street
Port Louis
Mauritius

Date: 25 May 2012

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

| | Note | **01.04.11-31.03.12 GBP** | 23.03.11-31.03.11 GBP |
|---|---|---|---|
| Revenue | 7 | **228,857** | – |
| Expenses | | **(457,475)** | (6,126) |
| **Loss from operating activities** | | **(228,618)** | (6,126) |
| Finance income | 8 | **63** | – |
| **Loss before taxation** | | **(228,555)** | (6,126) |
| Taxation | 9 | **–** | – |
| **Loss for the year/period** | | **(228,555)** | (6,126) |
| Other comprehensive income | | **–** | – |
| **Total comprehensive loss for the year/period** | | **(228,555)** | (6,126) |

## STATEMENT OF FINANCIAL POSITION

at 31 March 2012

| | Note | **2012 GBP** | 2011 GBP |
|---|---|---|---|
| **Assets** | | | |
| Investment Property | 10 | **5,879,344** | 6,128,461 |
| Receivables | 11 | **37,128** | – |
| **Total non-current assets** | | **5,916,472** | 6,128,461 |
| Other receivables | 12 | **8,870** | 5,000 |
| Cash and cash equivalents | | **50** | 3,563 |
| **Total current assets** | | **8,920** | 8,563 |
| **Total assets** | | **5,925,392** | 6,137,024 |
| **Equity** | | | |
| Stated capital | 13 | **1** | 1 |
| Revenue reserve | | **5,908,468** | 6,137,023 |
| **Total equity** | | **5,908,469** | 6,137,024 |
| Other liabilities | 14 | **16,923** | – |
| **Total current liabilities** | | **16,923** | – |
| **Total equity and liabilities** | | **5,925,392** | 6,137,024 |

Approved by the Board on 25 May 2012

Sd/-

Director

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

| | Share capital GBP | Revenue reserve GBP | Total GBP |
|---|---|---|---|
| Balance at 01 April 2011 | 1 | 6,143,149 | 6,143,150 |
| **Total comprehensive income for the period** | | | |
| Loss for the period | – | (6,126) | (6,126) |
| Balance at 31 March 2011 | 1 | 6,137,023 | 6,137,024 |
| **Total comprehensive income for the period** | | | |
| Loss for the year | – | (228,555) | (228,555) |
| **Balance at 31 March 2012** | **1** | **5,908,468** | **5,908,469** |

## STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

| | 2012 GBP | 2011 GBP |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the year/period | **(228,555)** | (6,126) |
| *Adjustments for:* | | |
| Depreciation | **249,117** | 6,126 |
| Change in other receivables | **(3,370)** | – |
| Change in other payables | **14,667** | – |
| **Net cash from operating activities** | **31,859** | – |
| **Cash flows from financing activities** | | |
| Advances to holding company | **(35,938)** | – |
| Advances to related company | **(1,190)** | – |
| Advances from related company | **2,256** | – |
| Amount deposited to Knight Frank | **(500)** | – |
| **Net cash used in financing activities** | **(35,372)** | – |
| Net movement in cash and cash equivalents | **(3,513)** | – |
| Cash and cash equivalents at beginning of the year/period | **3,563** | 3,563 |
| **Cash and cash equivalents at 31 March** | **50** | 3,563 |

## Notes to and forming part of the financial statements

***For the year ended 31 March 2012***

**1. General information**

The Company was incorporated as a private limited company on 30 May 2007 and was granted a Category 2 Global Business Licence on 31 May 2007. The principal activity of the Company is investing in properties.

The Company, as a holder of a Category 2 Global Business Licence under the Companies Act 2001 and the Financial Services Act 2007 is required to carry on its business in a currency other than the Mauritian rupee. Since the Company operates in an international environment and conducts most of its transactions in foreign currencies the Company has chosen to retain the Great Britain Pound (GBP) as its reporting currency.

**2. Basis of preparation**

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements.

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) *Basis of measurement*

The financial statements have been prepared on a historical cost basis except that financial assets and financial liabilities are fair valued.

(c) *Functional currency and presentation currency*

The financial statements are presented in Great Britain Pound (GBP) which is the Company's functional currency and presentation currency.

(d) *Use of estimates and judgement*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There were no critical judgements made in applying accounting policies that may have significant effect on the amount recognised in the financial statements.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

*Revenue recognition*

Revenue is recognised in the statement of comprehensive income as follows:

- Interest Income: as it accrues (taking into account the effective yield on the assets).
- Rental income: arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

*Foreign currency transactions*

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Great Britain Pound (GBP) at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional at the exchange rate at the date the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Foreign exchange differences arising on retranslation are recognised in the statement of comprehensive income.

*Impairment of assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. All impairment are recognised in the statement of comprehensive income.

An impairment is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised directly in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

*Investment properties*

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. The Directors have elected to recognise the investment property using the cost model. Such properties are measured initially at costs, including transaction costs and any direct attributable expenditure, and subsequently at cost less accumulated depreciation and any impairment.

Any gain or loss on disposal recognised in the statement of comprehensive income in the year the investment property is derecognised is the difference between the net sales proceeds and the carrying amount of the property.

*Depreciation*

Depreciation is recognised in statement of comprehensive income on a straight line basis over the estimated useful life of each part of an item of investment property. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Buildings | 2% straight line basis |
| Fixtures, fittings and equipment | 25% straight line basis |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes indicate the carrying value may not be recoverable. If any such indication exists and carrying values exceed recoverable amounts such assets are written down to their recoverable amounts.

*Non-derivative financial assets*

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

*Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the net asset and settle the liability simultaneously.

*Expenses*

All expenses are recognised in the statement of comprehensive income on an accrual basis.

*Receivables and other receivables*

Receivables and other receivables are stated at cost less impairment.

*Cash and cash equivalents*

Cash comprises cash at bank. Cash equivalents are short term, highly liquid investment that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

*Non-derivative financial liabilities*

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

*Other payables*

Other payables are stated at cost.

*Stated capital*

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Related parties*

Related parties may be individuals or other entities where the individual or other entities has the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in governing the financial and operating policies, or vice versa, or where the Company are subject to common control of common significant influence.

*Provisions*

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Newly effective standards, interpretations and amendments to standards and interpretations**

The newly effective standards, interpretations and amendments to standards and interpretations (collectively referred to as standards or requirements) are grouped into three parts.

***Part I*** Standards that are required to be applied in annual and interim periods ended on 31 March 2012.

***Part II*** Standards that are required to be applied in interim periods ended on 31 March 2012. However, these standards are not required to be applied in annual periods ended 31 March 2012, but can be early adopted unless otherwise indicated. Additional disclosures are required when a standard is early adopted.

***Part III*** Standards that are not required yet to be applied in either interim or annual periods, but that can be early adopted. Additional disclosures are required when such a standard is early adopted.

The following is a summary of all of the newly effective standards, interpretations and amendments by effective date.

| **Standards, amendments and interpretation** | Effective date |
|---|---|
| ***PART I*** | |
| Classification of rights issues (amendment to IAS 32) | 01 February 2010 |
| IFRIC 19 Extinguishing financial liabilities with equity instruments | 01 July 2010 |
| Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1) | 01 July 2010 |
| Improvements to IFRSs 2010 - various standards | 01 July 2010 |
| ***PART II*** | |
| IAS 24 Related party disclosures (revised 2009): | 01 January 2011 |
| Prepayments of a minimum funding requirement (amendments to IFRIC 14) | 01 January 2011 |
| Improvements to IFRSs 2010 - various standards | 01 January 2011 |
| Disclosures - Transfers of financial assets (amendments to IFRS 7) | 01 July 2011 |
| Severe hyperinflation and removal of fixed dates for first-time adopters (amendments to IFRS 1) | 01 July 2011 |
| ***PART III*** | |
| Deferred tax: recovery of underlying assets (amendments to IAS 12) | 01 January 2012 |
| Presentation of items of other comprehensive income (amendments to IAS I) | 01 July 2012 |
| IFRS 9 Financial instruments | 01 January 2015 |
| IFRS 10 Consolidated financial statements | 01 January 2013 |
| IFRS 11 Joint arrangements | 01 January 2013 |
| IFRS 12 Disclosure of interests in other entities | 01 January 2013 |
| IFRS 13 Fair value measurement | 01 January 2013 |
| IAS 19 Employee benefits (amended 2011) | 01 January 2013 |
| IAS 27 Separate financial statements (2011) | 01 January 2013 |
| IAS 28 Investments in associates and joint ventures (2011) | 01 January 2013 |
| IFRIC 20 Stripping costs in the production phase of a surface mine | 01 January 2013 |

**4. Determination of fair values**

The Company accounting policies and disclosures requires the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Receivables and other receivables*

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

*Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**5. Financial risk management**

*Introduction and preview*

Financial instruments carried on the statement of financial position include cash and cash equivalents, receivables, other receivables and other payables. The recognition method adopted is disclosed in the individual policy statement associated with each item. The most important types of risk are market risk, credit risk and liquidity risk.

The Company's activities expose them to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Company's aims are therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews their risk management policies and systems to reflect changes in markets and emerging best practice.

*Market risk*

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Company's income or the fair value of its holdings of financial instruments.

*(i.)* *Interest rate risk*

The Company is not significantly exposed to interest rate risk. The income and operating cash flows are substantially independent of changes in market interest rates. The Company's only significant interest-bearing financial asset is cash and cash equivalents which are on a call account.

*(ii.)* *Currency risk*

All of the Company's financial liabilities are denominated in Great Britain Pound. Consequently, the Company is not exposed to the risk of foreign currency exchange rates.

*(iii.)* *Price risk*

The Company is not exposed to commodity price risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet contractual obligations, and arises from the Company's cash and cash equivalents.

The Company also limits its exposure to credit risk by dealing only with counter parties that has a good credit rating and management does not expect counter party to fail to meet its obligations.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking damage to the Company's reputation.

**6. Capital management**

The Company actively and regularly reviews and manages its capital position to maintain a balance between its liability and equity level.

The management of the Company's capital position is undertaken by the management team of the Company. The management team ensures that the Company is adequately capitalised to meet economic and regulatory requirements. Capital injections and repatriations are executed in a timely fashion, working closely with the business and infrastructure groups. The management team meets on a regular basis and manages capital by taking into account key considerations which may include business developments, regulatory requirements, profitability and market movements such as foreign exchange and interest rate.

**7. Revenue**

Revenue represents:

| | **01.04.11-31.03.12 GBP** | 23.03.11-31.03.11 GBP |
|---|---|---|
| Rental fee income | **228,857** | – |

**8. Finance income**

| | **01.04.11-31.03.12 GBP** | 23.03.11-31.03.11 GBP |
|---|---|---|
| Bank interest | **63** | – |

**9. Taxation**

The company holds a Category 2 Global Business Licence and is exempt from Income Tax under the Mauritian laws.

**10. Investment property**

| | **Building GBP** | **Furniture and fittings GBP** | **Total GBP** |
|---|---|---|---|
| *Cost* | | | |
| **At 01 April/ 31 March** | **5,858,911** | **525,032** | **6,383,943** |
| Depreciation | | | |
| At 22 March 2011 | 231,016 | 18,340 | 249,356 |
| Charge for the period | 2,890 | 3,236 | 6,126 |
| At 22 March 2011 | 233,906 | 21,576 | 255,482 |
| Charge for the year | 117,499 | 131,618 | 249,117 |
| At 31 March 2012 | 351,405 | 153,194 | 504,599 |
| Net book value | | | |
| **Balance at 31 March 2012** | **5,507,506** | **371,838** | **5,879,344** |
| Balance at 31 March 2011 | 5,625,005 | 503,456 | 6,128,461 |

The fair value of the investment property has been estimated at GBP 8,250,000. The Valuation of the investment property was carried out by Savills Commercial Limited of 20 Grosvenor Hill London WIK3HQ on September 2011. Savill Commercial Limited provided their opinions on the value of the investment property based on the following:

- The current Market Value of the leasehold interest, with the benefit of full vacant possession ("Vacant Possession Value")
- The projected Market Value of leasehold interest
- The potential or estimated Rental Value
- Reinstatement Cost Assessment, where appropriate

The current Market and Projected Market Value of the leasehold interest on the special assumption of full vacant possession is estimated to GBP 8,250,000 (Eight Million Two Hundred and Fifty Thousand Pounds).

The parent company (Poeticgem Limited), has an arrangement with the Barclays Bank and Royal Bank of Scotland as a result of these, the banks have placed a legal charge over the property of the company, as first charge with Barclays Bank and second charge with Royal Bank of Scotland.

**11. Receivables**

| | **2012 GBP** | 2011 GBP |
|---|---|---|
| Receivable from holding company | **35,938** | – |
| Receivable from related company | **1,190** | – |
| | **37,128** | – |

**12. Other receivables**

| | **2012 GBP** | 2011 GBP |
|---|---|---|
| Deposit to Knight Frank | **5,500** | 5,000 |
| Prepaid expenses | **3,370** | – |
| | **8,870** | 5,000 |

**13. Stated capital**

| | **2012 GBP** | 2011 GBP |
|---|---|---|
| *Stated capital* | | |
| 1 Ordinary shares of GBP 1 each | **1** | 1 |

All shares in issue are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**14. Other payables**

| | 2012 GBP | 2011 GBP |
|---|---|---|
| Other payables | **9,524** | – |
| Prepaid income | **5,143** | – |
| Payable to related company | **2,256** | – |
| | **16,923** | – |

**15. Related party transactions**

During the year under review, the Company entered into the following related party transactions.

| | Nature | 2012 GBP | 2011 GBP |
|---|---|---|---|
| *Transaction during the year/period* | *Nature* | | |
| Receivable from holding company | Advances | **35,938** | – |
| Receivable from related company | Advances | **1,190** | – |
| Payable to related company | Advances | **2,256** | – |
| *Balances outstanding at 31 March:* | | | |
| Receivable from holding company | Advances given | **35,938** | – |
| Receivable from related company | Advances given | **1,190** | – |
| Payable to related company | Advances received | **2,256** | – |

**Compensation to key management personnel**

The company did not pay any compensation to its key management personnel during the year. (2011: nil).

**16. Financial Instruments**

**Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

| | Carrying amount 2012 GBP | Fair value 2012 GBP | Carrying amount 2011 GBP | Fair value 2011 GBP |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Receivables | **37,128** | **37,128** | – | – |
| Other receivables | **5,500** | **5,500** | 5,000 | 5,000 |
| Cash and cash equivalents | **50** | **50** | 3,564 | 3,564 |
| **Financial assets** | 42,678 | 42,678 | 8,564 | 8,564 |
| **Financial liabilities** | | | | |
| Other payables | 16,923 | 16,923 | – | – |

*Overview*

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Interest rate risk
- Credit risk
- Liquidity risk

*Market risk*

Market risk represents the potential loss that can be caused by a change in the market value of financial instruments. The Company's exposure to market risk is determined by a number of factors, including interest rates, foreign currency exchange rates and market volatility. The Company conducts its investment operations in a manner that seeks to exploit the potential gains in the market, while limiting its exposure to market declines.

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company has no significant exposure to interest rate risk other than relating to its bank balances.

*Credit risk*

Credit risk represents the potential loss that the Company would incur if counter parties fail to perform pursuant to the terms of their obligations to the Company. The Company limits its credit risk by carrying out transactions through companies within the group. At the statement of financial position date, there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit risk at the reporting date was:

| | *Carrying Amount* 2012 GBP | 2011 GBP |
|---|---|---|
| Receivables | **37,128** | – |
| Other receivables | **5,500** | 5,000 |
| Cash and cash equivalents | **50** | 3,564 |
| | **42,678** | 8,564 |

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the company's contractual maturities of financial liabilities:

| | Within One year GBP | One to five Years GBP | Total GBP |
|---|---|---|---|
| ***Year ended 31 March 2012*** | | | |
| **Financial liabilities** | | | – |
| Other payables | 16,923 | – | 16,923 |
| ***Period ended 31 March 2011*** | | | |
| **Financial liabilities** | | | |
| Other payables | – | – | – |

***Currency risk***

The Company has no currency risk and all its transactions are denominated in Great Britain Pound (GBP).

**17. Holding and ultimate holding company**

The immediate parent company of Razamtazz Limited is Poeticgem Limited, a company registered in England and Wales, and the ultimate parent company is Pearl Global Industries Limited (Formerly House of Pearl Fashions Limited), a company registered in India.

| | 01.04.11-31.03.12 GBP | 23.03.11-31.03.11 GBP |
|---|---|---|
| **Revenue** | | |
| Rental income | **228,857** | – |
| **Expenses** | | |
| Depreciation | **249,117** | 6,126 |
| Management fees | **160,999** | – |
| Service charges | **13,666** | – |
| Professional fees | **12,440** | – |
| Accounting and audit fees | **7,621** | – |
| Repairs and maintenance | **7,317** | – |
| Insurance | **3,610** | – |
| Administration fee | **2,055** | – |
| Telephone, fax and courier charges | **346** | – |
| Exchange loss | **154** | – |
| License fees | **119** | – |
| Bank charges | **31** | – |
| | **(457,475)** | (6,126) |
| **Loss from operating activities** | **(228,618)** | (6,126) |
| Finance income | **63** | – |
| **Loss before taxation** | **(228,555)** | (6,126) |

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 March 2012.

**Principal activities**

The principal activity of the Company has not changed during the year and was the trading of garments. Details of the principal activities of the Company's subsidiaries are set out in note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

**Results and dividends**

The Group's profit for the year ended 31 March 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 5 to 63.

The directors do not recommend the payment of any dividend in respect of the year.

**Property, plant and equipment and investment properties**

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 11 and 12 to the financial statements, respectively.

**Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 22(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

**Directors**

The directors of the Company during the year were:

Pallak Seth

Sandeep Malhotra

Faiza Habeeb Seth

In accordance with the Company's articles of association, all directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

**Directors' interests**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**Directors' interests in contracts**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

**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**

Sd/-

Chairman

Hong Kong

18 May 2012

## INDEPENDENT AUDITORS' REPORT

**To the shareholders of Norwest Industries Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Norwest Industries Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 5 to 63, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-

Certified Public Accountants

Hong Kong

18 May 2012

## CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| **REVENUE** | 4 | **2,227,897,396** | 1,654,558,243 |
| Cost of sales | | **(1,846,898,468)** | (1,356,258,714) |
| Gross profit | | **380,998,928** | 298,299,529 |
| Other income and gains | 4 | **43,294,477** | 63,525,815 |
| Selling and distribution costs | | **(141,590,502)** | (142,697,393) |
| Administrative expenses | | **(211,590,272)** | (151,223,531) |
| Other operating expenses | | **(10,217,353)** | (7,701,993) |
| Finance costs | 6 | **(9,573,504)** | (15,045,655) |
| **PROFIT BEFORE TAX** | 5 | **51,321,774** | 45,156,772 |
| Income tax expense | 8 | **(7,945,007)** | (1,439,935) |
| **PROFIT FOR THE YEAR** | | **43,376,767** | 43,716,837 |
| Attributable to: | | | |
| Owners of the parent | | **43,666,167** | 43,716,837 |
| Non-controlling interests | | **(289,400)** | – |
| | | **43,376,767** | 43,716,837 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March, 2012

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| **PROFIT FOR THE YEAR** | **43,376,767** | 43,716,837 |
| **OTHER COMPREHENSIVE LOSS** | | |
| Cash flow hedges | **(1,263,308)** | (18,035,627) |
| Available-for-sale investments: | | |
| Changes in fair value | **70,025** | 39,882 |
| Reclassification adjustments for loss included in the consolidated income statement -loss on disposals | **168,151** | – |
| Exchange differences on translation of foreign operations | **(51,312)** | (210) |
| **OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX** | **(1,076,444)** | (17,995,955) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **42,300,323** | 25,720,882 |
| Attributable to: | | |
| Owners of the parent | **42,589,723** | 25,720,882 |
| Non-controlling interests | **(289,400)** | – |
| | **42,300,323** | 25,720,882 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2012

| | Notes | 31 March 2012 HK$ | 31 March 2011 HK$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **13,993,650** | 11,719,611 |
| Investment properties | 12 | **32,964,189** | 33,697,660 |
| Available-for-sale investments | 14 | **1,958,573** | 2,643,052 |
| Deposits and other receivables | | **–** | 2,478,497 |
| Deferred tax assets | 20 | **723,390** | 553,311 |
| Total non-current assets | | **49,639,802** | 51,092,131 |
| **CURRENT ASSETS** | | | |
| Inventories | 15 | **91,534,557** | **51,979,998** |
| Trade and bills receivables | 16 | **378,575,275** | 300,373,093 |
| Prepayments, deposits and other receivables | | **25,886,532** | 33,753,267 |
| Due from the ultimate holding company | 25(b) | **271,569** | – |
| Due from fellow subsidiaries | 25(b) | **82,064,549** | 78,425,083 |
| Due from non-controlling shareholders | 25(b) | **248,960** | – |
| Derivative financial instruments | 19 | **–** | 1,271,454 |
| Pledged time deposits | 17 | **104,189,873** | 74,381,185 |
| Cash and cash equivalents | 17 | **10,968,860** | 14,957,334 |
| Total current assets | | **693,740,175** | 555,141,414 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | | **180,285,947** | 125,358,062 |
| Other payables and accruals | | **16,841,780** | 12,320,678 |
| Interest-bearing bank borrowings | 18 | **223,086,731** | 201,261,812 |
| Due to the ultimate holding company | 25(b) | **–** | 416,213 |
| Due to the immediate holding company | 25(b) | **5,125,030** | 807,971 |
| Due to fellow subsidiaries | 25(b) | **12,745,657** | 5,054,064 |
| Derivative financial instruments | 19 | **6,991,434** | 6,749,944 |
| Tax payable | | **12,009,267** | 5,034,985 |
| **Total current liabilities** | | **457,085,846** | 357,003,729 |
| **NET CURRENT ASSETS** | | **236,654,329** | 198,137,685 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **286,294,131** | 249,229,816 |
| **NON-CURRENT LIABILITIES** | | | |
| Due to the immediate holding company | 25(b) | **–** | 2,372,968 |
| Net assets | | **286,294,131** | 246,856,848 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 21 | **9,336,000** | 9,336,000 |
| Reserves | | **276,998,571** | 237,520,848 |
| | | **286,334,571** | 246,856,848 |
| **Non-controlling interests** | | **(40,440)** | – |
| Total equity | | **286,294,131** | 246,856,848 |

Sd/-
**Director**

Sd/-
**Director**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2012

| | Note | Issued capital | Available-for-sale investment revaluation reserve | Hedging reserve | Retained profits | Exchange reserve | Total equity |
|---|---|---|---|---|---|---|---|
| | | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| At 1 April 2010 | | 9,336,000 | (215,351) | 13,461,089 | 198,590,813 | (36,585) | 221,135,966 |
| Profit for the year | | – | – | | 43,716,837 | – | 43,716,837 |
| Other comprehensive loss for the year: | | | | | | | |
| Change in fair values of available-far-sale investments, net of tax | | – | 39,882 | – | – | – | 39,882 |
| Cash flow hedges, net of tax | | – | – | (18,035,627) | – | – | (18,035,627) |
| Exchange differences on translation of foreign operations | | – | – | – | – | (210) | (210) |
| Total comprehensive income for the year | | – | 39,882 | (18,035,627) | 43,716,837 | (210) | 25,720,882 |
| At 31 March 2011 | | 9,336,000 | (175,469)* | (4,574,538)* | 242,307,650* | (36,795)* | 246,856,848 |

| | Note | Issued capital | Available-for-sale investment revaluation reserve | Hedging reserve | Retained profits | Exchange reserve | Total equity attributable to owners of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| At 1 April 2011 | | 9,336,000 | (175,469) | (4,574,538) | 242,307,650 | (36,795) | 246,856,848 | – | 246,856,848 |
| Profit for the year | | – | – | – | 43,666,167 | – | 43,666,167 | (289,400) | 43,367,767 |
| Other comprehensive loss for the year: | | | | | | | | | |
| Changes in fair values of available-for-sale investments, net of tax | | – | 70,025 | – | – | – | 70,025 | – | 70,025 |
| Loss on disposal of available-far-sale investments | | – | 168,151 | – | – | – | 168,151 | – | 168,151 |
| Cash flow hedges, net of tax | | – | – | (1,263,308) | – | – | ( 1,263,308) | – | (1,263,308) |
| Exchange differences on translation of foreign operations | | – | – | – | – | ( 51,312) | ( 51,312) | – | (51,312) |
| Interim dividend paid | 10 | – | – | – | (3,112,000) | – | ( 3,112,000) | – | (3,112,000) |
| Capital contribution by non-controlling shareholders | | – | – | – | – | – | – | 248,960 | 248,960 |
| Total comprehensive income for the year | | – | 238,176 | (1,263,308) | 40,554,167 | (51,312) | 39,477,723 | ( 40,440) | 39,437,283 |
| **At 31 March 2012** | | **9,336,000** | **62,707*** | **(5,837,846)*** | **282,861,817*** | **(88,107)*** | **286,334,571** | **( 40,440)** | **286,294,131** |

* These reserve accounts comprise the reserves of HK$276,998,571 (2011: HK$237,520,848) in the consolidated statement of financial position.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2012

| | Notes | 2012<br>HK$ | 2011<br>HK$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **51,321,774** | 45,156,772 |
| Adjustments for: | | | |
| Interest income | 4 | **(224,122)** | (984,717) |
| Finance costs | 6 | **9,573,504** | 15,045,655 |
| Depreciation for property, plant and equipment | 5 | **6,778,424** | 4,993,115 |
| Depreciation for investment properties | 5 | **733,471** | 733,471 |
| Write-off of property, plant and equipment | 5 | **14,961** | – |
| Loss on disposal of available-for-sale investments | 5 | **168,151** | – |
| | | **68,366,163** | 64,944,296 |
| Increase in inventories | | **(39,554,559)** | (51,979,998) |
| Increase in trade and bills receivables | | **(78,202,182)** | (67,312,858) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **10,345,232** | (15,964,870) |
| Decrease in an amount due to the ultimate holding company | | **(271,569)** | – |
| Increase in amounts due from fellow subsidiaries | | **(3,639,466)** | (26,726,133) |
| Increase in trade and bills payables | | **54,927,885** | 16,646,783 |
| Increase in other payables and accruals | | **4,521,102** | 4,850,218 |
| Increase/(decrease) in an amount due to the ultimate holding company | | **(416,213)** | 211,648 |
| Increase in an amount due to the immediate holding company | | **4,317,059** | 294,491 |
| Increase in amounts due to fellow subsidiaries | | **7,691,593** | 2,420,554 |
| Cash generated from/(used in) operations | | **28,085,045** | (72,615,869) |
| Hong Kong profits tax paid | | **(808,613)** | (1,887,627) |
| Overseas tax paid | | **(82,555)** | (34,507) |
| Interest paid | | **(9,573,504)** | (15,045,655) |
| Net cash flows from/(used in) operating activities | | **17,620,373** | (89,583,658) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(9,055,302)** | (8,552,600) |
| Proceeds from disposal of available-for-sale investments | | **754,504** | – |
| Acquisition of a subsidiary | | **–** | (2,220) |
| Interest received | | **224,122** | 984,717 |
| Net cash flows used in investing activities | | **(8,076,676)** | (7,570,103) |
| Dividend paid | | **(3,112,000)** | – |
| New bank loans | | **2,934,032,819** | 147,631,808 |
| Repayment of bank loans | | **(2,912,805,515)** | (11,467,878) |
| Decrease in an amount due to the immediate holding company | | **(2,372,968)** | (494,380) |
| Net cash flows from financing activities | | **15,742,336** | 135,669,550 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **25,286,033** | 38,515,789 |
| Cash and cash equivalents at beginning of year | | **89,158,741** | 50,641,884 |
| Effect of foreign exchange rate changes, net | | **(63,434)** | 1,068 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **114,381,340** | 89,158,741 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 17 | **10,968,860** | 14,957,334 |
| Time deposits with original maturity of less than three months when acquired, pledged as security for bank loans and bank overdraft facilities | 17 | **104,189,873** | 74,381,185 |
| Bank overdrafts | 18 | **(777,393)** | (179,778) |
| | | **114,381,340** | 89,158,741 |

## STATEMENT OF FINANCIAL POSITION

31 March 2012

| | Notes | 31 March<br>2012<br>HK$ | 31 March<br>2011<br>HK$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **8,605,792** | 8,726,416 |
| Investment properties | 12 | **32,964,189** | 33,697,660 |
| Investments in subsidiaries | 13 | **1,939,440** | 1,332,600 |
| Available-for-sale investments | 14 | **1,958,573** | 2,643,052 |
| Deposits and other receivables | | **–** | 2,478,497 |
| Deferred tax assets | 20 | **909,689** | 784,864 |
| Total non-current assets | | **46,377,683** | 49,663,089 |
| **CURRENT ASSETS** | | | |
| Trade and bills receivables | 16 | **210,583,687** | 252,557,131 |
| Prepayments, deposits and other receivables | | **15,630,040** | 27,782,625 |
| Due from the ultimate holding company | 25(b) | **428,226** | – |
| Due from the immediate holding company | 25(b) | **435,680** | – |
| Due from fellow subsidiaries | 25(b) | **106,314,976** | 78,425,083 |
| Due from subsidiaries | 13 | **81,803,093** | 64,840,031 |
| Derivative financial instruments | 19 | | 1,271,454 |
| Pledged time deposits | 17 | **104,189,873** | 74,381,185 |
| Cash and cash equivalents | 17 | **8,443,923** | 10,509,443 |
| **Total current assets** | | **527,829,498** | 509,766,952 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | | **99,063,802** | 116,306,276 |
| Other payables and accruals | | **15,319,955** | 11,370,742 |
| Interest-bearing bank borrowings | 18 | **170,377,580** | 168,323,556 |
| Due to the ultimate holding company | 25(b) | **–** | 416,213 |
| Due to the immediate holding company | 25(b) | **–** | 1,070 |
| Due to fellow subsidiaries | 25(b) | **6,400,859** | 2,520,322 |
| Derivative financial instruments | 19 | **5,470,937** | 6,349,453 |
| Tax payable | | **7,104,312** | 4,571,731 |
| Total current liabilities | | **303,737,445** | 309,859,363 |
| **NET CURRENT ASSETS** | | **224,092,053** | 199,907,589 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **270,469,736** | 249,570,678 |
| **NON-CURRENT LIABILITIES** | | | |
| Due to the immediate holding company | 25(b) | **–** | 2,372,968 |
| Net assets | | **270,469,736** | 247,197,710 |
| **EQUITY** | | | |
| Issued capital | 21 | **9,336,000** | 9,336,000 |
| Reserves | 22(b) | **261,133,736** | 237,861,710 |
| Total equity | | **270,469,736** | 247,197,710 |

Sd/-
Director

Sd/-
Director

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2012

### 1. CORPORATE INFORMATION

Norwest Industries Limited is a limited company incorporated in Hong Kong. The registered office of the Company is located at 7/F., Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

During the year, the Group was principally involved in the trading of garments.

The Company is a wholly-owned subsidiary of Multinational Textile Group Limited, a company incorporated in Mauritius. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on The National Stock Exchange of India Limited.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and available-for-sales investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$"), which is also the Company's functional and presentation currency.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary (collectively referred to as the "Group") for the year ended 31 March 2012. The financial statements of its subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of its subsidiaries are consolidated from the respective dates of incorporation/acquisition, being the dates on which the Group obtains control, and continue to be consolidated until the respective dates that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain new and revised HKFRSs became effective for the first time during the current financial year but are not applicable to the Group, and accordingly, they have had no impact on the Group's financial statements for the year ended 31 March 2012.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the year ended 31 March 2012, in these financial statements. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39") either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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 such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold improvements | Over the shorter of the lease terms and 33 1/3% |
| Furniture and fixtures | 25% |
| Motor vehicles | 33 1/3% |
| Office equipment | 33 1/3% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and / or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs and any directly attributable expenditure, and subsequently at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each investment property, which is the shorter of 50 years and the term of the lease,

Any gain or loss on disposal recognised in the income statement in the year the investment property is disposed is the difference between the net sales proceeds and the carrying amount of the property.

Investments and other financial assets

*Initial recognition and measurement*

Financial assets of the Group within the scope of HKAS 39 are classified as loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction cost, except in the case of financial assets recorded at fair value through the income statement.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged time deposits, amounts due from fellow subsidiaries, investments in quoted unit trusts, trade and bills receivables, deposits and other receivables, and derivative financial instruments.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other operating expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through the income statement.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, 'with unrealised gains or losses recognised as other comprehensive income in the available-for sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables, and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

*Initial recognition and measurement*

Financial liabilities of the Group within the scope of HKAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to the ultimate holding company, the immediate holding company and fellow subsidiaries, financial guarantee contracts, derivative financial instruments, and interest-bearing loans and borrowings.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions and reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship with which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument for cash flow hedges is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement in other expenses.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a nonfinancial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects the income statement.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 income statement on the straight line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

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) handling fee income, when the services are rendered;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method.

Employee benefits

*Retirement benefit costs*

The Group operates a mandatory provident fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which are based in Mainland China and Sri Lanka are required to participate in central pension schemes operated by the respective local governments. These subsidiaries are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

Foreign currencies

These financial statements are presented in HK$, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

The functional currency of an overseas subsidiary is a currency other than HK$. As at the end of the reporting period, the assets and liabilities of the subsidiary are translated into the presentation currency of the Company at the exchange rate ruling at the end of the reporting period and its income statement is translated into HK$ at the weighted average exchange rate for the period. The resulting exchange differences are recognised in other comprehensive income and are accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of an overseas subsidiary are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the period are translated into HK$ at the weighted average exchange rate for the period.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised as follows:

(a) Impairment of property, plant and equipment

Items of property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value.

(b) Impairment of trade and bills receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade and bills receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

(c) Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(d) Classification of financial instruments

Management has made judgements on the classification of financial assets and financial liabilities in the process of applying the Group's accounting policies, which have significant effect on the amounts recognised in the financial statements. The Group determines the classification of certain assets and liabilities as financial assets and financial liabilities by judging whether they meet the definition of financial assets and financial liabilities set out in HKAS39.

HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 require that the Group carries certain of its financial assets at fair value, which requires extensive use of accounting estimates. While significant components off fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilises different valuation methodologies. Any such changes in the fair values of these financial assets would affect directly the Group's financial position and equity.

(e) Impairment of inventories

Management reviews the ageing analysis of inventories of the Company at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and the provision charge/write-back of provision for obsolete and slow-moving inventory items in the period in which estimate has been changed.

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold.

An analysis of the Group's other income and gains is as follows:

| | **2012** | 2011 |
|---|---|---|
| | **HK$** | HK$ |
| Interest income | **224,122** | 984,717 |
| Handling fee income | **15,448,563** | 12,027,983 |
| Rental income | **2,136,012** | 2,182,692 |
| Foreign exchange differences, net | **4,003,595** | 8,035,757 |
| Fair value gains of cash flow hedges (transfer from equity), net | **522,184** | 20,750,293 |
| Others | **20,960,001** | 19,544,373 |
| | **43,294,477** | 63,525,815 |

**5. PROFIT BEFORE TAX**

The Group's profit before tax is arrived at after charging:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Auditors' remuneration | **616,951** | 410,000 |
| Depreciation for property, plant and equipment | **6,778,424** | 4,993,115 |
| Depreciation for investment properties | **733,471** | 733,471 |
| Staff costs (excluding directors' remuneration (note 7)): | | |
| Salaries and allowances | **77,414,031** | 64,158,926 |
| Pension scheme contributions (defined contribution scheme) | **3,450,879** | 2,363,247 |
| | **80,864,910** | 66,522,173 |
| Minimum lease payments under operating leases of land and buildings | **5,734,940** | 5,122,195 |
| Loss on disposal of available-for-sale investments | **–** | – |
| Loss on disposal of property, plant and equipment | **14,961** | – |

**6. FINANCE COSTS**

| | Group | |
|---|---|---|
| | 2012 HK$ | 2011 HK$ |
| Interest on bank loans, overdrafts and other loans | **9,573,504** | 15,045,655 |

**7. DIRECTORS' REMUNERATION**

No directors received any fees or emoluments in respect of their services rendered to the Company during the year (2011: Nil).

**8. INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Group | | |
| Current - Hong Kong | | |
| Charge for the year | **7,184,984** | 1,850,867 |
| Overprovision in prior years | **(463,254)** | (1,783,614) |
| Current - Elsewhere | **1,143,720** | 1,091,069 |
| Deferred (note 20) | **79,557** | 281,613 |
| Total tax charge for the year | **7,945,007** | 1,439,935 |

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Group is domiciled to the tax charge/(credit) at the Group's effective tax rate, and a reconciliation of the applicable rate to the effective rate, are as follows:

**Group - 2012**

| | Hong Kong HK$ | Mainland China HK$ | Total HK$ |
|---|---|---|---|
| Profit/(loss) before tax | 51,373,921 | (52,147) | 51,321,774 |
| Tax at the applicable tax rate | 8,476,697 | (13,037) | 8,463,660 |
| Adjustments in respect of current tax of previous periods | (463,254) | – | (463,254) |
| Income not subject to tax | (3,950,011) | – | (3,950,011) |
| Expenses not deductible for tax | 1,291,376 | – | 1,291,376 |
| Tax on deemed profit arising from operations outside Hong Kong | 1,143,720 | – | 1,143,720 |
| Tax losses not recognised | 1,168,398 | 13,037 | 1,181,435 |
| Others | 278,081 | – | 278,081 |
| Tax at the effective rate | 7,945,007 | – | 7,945,007 |

Group - 2011

| | Hong Kong HK$ | Mainland China HK$ | Total HK$ |
|---|---|---|---|
| Profit/(loss) before tax | 45,543,239 | (386,467) | 45,156,772 |
| Tax at the applicable tax rate | 7,514,634 | (96,617) | 7,418,017 |
| Adjustments in respect of current tax of previous periods | (1,783,614) | – | (1,783,614) |
| Income not subject to tax | (6,752,278) | – | (6,752,278) |
| Expenses not deductible for tax | 1,265,541 | – | 1,265,541 |
| Tax on deemed profit arising from operations outside Hong Kong | 1,091,069 | – | 1,091,069 |
| Tax losses not recognised | – | 96,617 | 96,617 |
| Others | 104,583 | – | 104,583 |
| Tax at the effective rate | 1,439,935 | – | 1,439,935 |

As at the end of the reporting period, a subsidiary of the Group had unused tax losses arising in Hong Kong ofHK$7,388,543, subject to the agreement of the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against the future taxable profits of the subsidiary. Another subsidiary of the Group had tax losses arising in mainland China which amounted to HK$2,092,368 (2011: HK$2,040,221) as at the end of the reporting period, which are subject to the agreement of the corresponding mainland China tax authority and are available for offsetting against the future taxable profits of the subsidiary in mainland China.

At the end of the reporting period, deferred tax assets in respect of the unused tax losses have only been recognised to the extent that the deferred tax liabilities associated with chargeable temporary differences were offset as the directors consider it uncertain that future taxable profits will be available to utilise all the unused tax losses. The deferred tax assets not recognised are analysed as follows:

The Group's profit before tax is arrived at after charging:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Unused tax losses | **1,219,109** | – |
| Depreciation allowance in excess of depreciation | **(50,711)** | – |
| Total tax charge for the year | **1,168,398** | – |

**9. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT**

The consolidated profit attributable to owners of the parent for the year ended 31 March 2012 includes a profit ofHK$26,473,953 (2011: HK$42,032,740) which has been dealt with in the financial statements of the Company (note 22(b)).

**10. DIVIDENDS**

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Interim - HK$0.33 cent (2011: Nil) per ordinary share | **3,112,000** | – |

The directors do not recommend the payment of final dividend for the year.

**11. PROPERTY, PLANT AND EQUIPMENT**

**Group**

| | Leasehold improvements HK$ | Furniture and fixtures HK$ | Motor vehicles HK$ | Office equipment HK$ | Total HK$ |
|---|---|---|---|---|---|
| **31 March 2012** | | | | | |
| At 31 March 2011 and at 1 April 2011: | **3,467,385** | **5,981,256** | **3,084,597** | **12,475,976** | **25,009,214** |
| Cost | | | | | |
| Accumulated depreciation | **(2,366,414)** | **(2,801,568)** | **(1,847,533)** | **(6,274,088)** | **(13,289,603)** |
| Net carrying amount | **1,100,971** | **3,179,688** | **1,237,064** | **6,201,888** | **11,719,611** |
| At 1 April 2011, net of accumulated depreciation | **1,100,971** | **3,179,688** | **1,237,064** | **6,201,888** | **11,719,611** |

| | Leasehold improvements | Furniture and fixtures | Motor vehicles | Office equipment | Total |
|---|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ | HK$ |
| Additions | **2,498,698** | **1,853,344** | **–** | **4,703,260** | **9,055,302** |
| Depreciation provided during the year | **(1,130,208)** | **(1,352,216)** | **(632,731)** | **(3,663,269)** | **(6,778,424)** |
| Disposals | **( 14,961)** | **–** | **–** | **–** | **( 14,961)** |
| Exchange realignment | **2,009** | **–** | **–** | **10,113** | **12,122** |
| At 31 March 2012 net of accumulated depreciation | **2,456,509** | **3,680,816** | **604,333** | **7,251,992** | **13,993,650** |
| At 31 March 2012: | | | | | |
| Cost | **5,878,994** | **7,834,600** | **3,084,597** | **17,190,058** | **33,988,249** |
| Accumulated depreciation | **(3,422,485)** | **(4,153,784)** | **(2,480,264)** | **(9,938,066)** | **(19,994,599)** |
| Net carrying amount | **2,456,509** | **3,680,816** | **604,333** | **7,251,992** | **13,993,650** |
| **31 March 2011** | | | | | |
| At 1 April 2010: | | | | | |
| Cost | 3,337,346 | 3,650,651 | 2,407,514 | 7,061,103 | 16,456,614 |
| Accumulated depreciation | (1,585,915) | (1,839,365) | (1,213,063) | (3,658,145) | (8,296,488) |
| Net carrying amount | 1,751,431 | 1,811,286 | 1,194,451 | 3,402,958 | 8,160,126 |
| At 1 April 2010, net of accumulated depreciation | 1,751,431 | 1,811,286 | 1,194,451 | 3,402,958 | 8,160,126 |
| Additions | 130,039 | 2,330,605 | 677,083 | 5,414,873 | 8,552,600 |
| Depreciation provided during the year | (780,499) | (962,203) | (634,470) | (2,615,943) | (4,993,115) |
| At 31 March 2011, net of accumulated depreciation | 1,100,971 | 3,179,688 | 1,237,064 | 6,201,888 | 11,719,611 |
| At 31 March 2011: | | | | | |
| Cost | 3,467,385 | 5,981,256 | 3,084,597 | 12,475,976 | 25,009,214 |
| Accumulated depreciation | ( 2,366,414) | (2,801,568) | (1,847,533) | (6,274,088) | (13,289,603) |
| Net carrying amount | 1,100,971 | 3,179,688 | 1,237,064 | 6,201,888 | 11,719,611 |
| **31 March 2012** | | | | | |
| Company | | | | | |
| At 31 March 2011 and at 1 April 2011 : | | | | | |
| Cost | **3,380,296** | **4,865,081** | **3,084,597** | **10,348,216** | **21,678,190** |
| Accumulated depreciation | **(2,344,642)** | **(2,730,272)** | **(1,847,533)** | **(6,029,327)** | **(12,951,774)** |
| Net carrying amount | **1,035,654** | **2,134,809** | **1,237,064** | **4,318,889** | **8,726,416** |
| At 1 April 2011, net of accumulated depreciation | **1,035,654** | **2,134,809** | **1,237,064** | **4,318,889** | **8,726,416** |
| Additions | **2,456,608** | **768,462** | **–** | **1,826,847** | **5,051,917** |
| Depreciation provided during the year | **(1,075,543)** | **(843,103)** | **(632,731)** | **(2,621,164)** | **(5,172,541)** |
| At 31 March 2012, net of accumulated depreciation | **2,416,719** | **2,060,168** | **604,333** | **3,524,572** | **8,605,792** |
| At 31 March 2012: | | | | | |
| Cost | **5,836,904** | **5,633,543** | **3,084,597** | **12,175,063** | **26,730,107** |
| Accumulated depreciation | **(3,420,185)** | **(3,573,375)** | **(2,480,264)** | **(8,650,491)** | **(18,124,315)** |
| Net carrying amount | **2,416,719** | **2,060,168** | **604,333** | **3,524,572** | **8,605,792** |
| **31 March 2011** | | | | | |
| Company | | | | | |
| At 1 April 2010: | | | | | |
| Cost | 3,337,346 | 3,650,651 | 2,407,514 | 7,061,103 | 16,456,614 |
| Accumulated depreciation | (1,585,915) | (1,839,365) | (1,213,063) | (3,658,145) | (8,296,488) |
| Net carrying amount | 1,751,431 | 1,811,286 | 1,194,451 | 3,402,958 | 8,160,126 |
| At 1 April 2010, net of accumulated depreciation | 1,751,431 | 1,811,286 | 1,194,451 | 3,402,958 | 8,160,126 |
| Additions | 42,950 | 1,214,430 | 677,083 | 3,287,113 | 5,221,576 |
| Depreciation provided during the year | (758,727) | (890,907) | (634,470) | (2,371,182) | (4,655,286) |
| At 31 March 2011, net of accumulated depreciation | 1,035,654 | 2,134,809 | 1,237,064 | 4,318,889 | 8,726,416 |
| At 31 March 2011: | | | | | |
| Cost | 3,380,296 | 4,865,081 | 3,084,597 | 10,348,216 | 21,678,190 |
| Accumulated depreciation | (2,344,642) | (2,730,272) | (1,847,533) | (6,029,327) | (12,951,774) |
| Net carrying amount | 1,035,654 | 2,134,809 | 1,237,064 | 4,318,889 | 8,726,416 |

## 12. INVESTMENT PROPERTIES

Group and Company

| | HK$ |
|---|---|
| At 1 April 2010: | |
| Cost | 36,673,551 |
| Accumulated depreciation | (2,242,420) |
| Net carrying amount | 34,431,131 |
| At 1 April 2010, net of accumulated depreciation | 34,431,131 |
| Depreciation provided during the year | (733,471) |
| At 31 March 2011, net of accumulated depreciation | 33,697,660 |
| At 31 March 2011: | |
| Cost | 36,673,551 |
| Accumulated depreciation | (2,975,891) |
| Net carrying amount | 33,697,660 |
| At 31 March 2011 and I April 2011, net of accumulated depreciation | 33,697,660 |
| Depreciation provided during the year | (733,471) |
| At 31 March 2012, net of accumulated depreciation | 32,964,189 |
| At 31 March 2012: | |
| Cost | 36,673,551 |
| Accumulated depreciation | (3,709,362) |
| Net carrying amount | 32,964,189 |

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

As at the end of the reporting period, the aggregate fair value of the Group's investment properties as estimated by the directors based on market information amounted to HK$52,700,000 (2011: HK$50,200,000). An investment property of the Group has been leased to a third party under an operating lease, further summary details of which are included in note 24(a) to the financial statements.

At 31 March 2012, all of the Group's investment properties were pledged to secure the general banking facilities granted to the Group (note 18).

## 13. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$** | HK$ |
| Unlisted shares, at cost | **1,939,440** | 1,332,600 |

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries as at 31 March 2012 are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity directly attributable to the Company | Principal activities |
|---|---|---|---|---|
| Grand Pearl Trading Company Limited*# | People's Republic of China ("PRC") | US$150,000 | 100% | Trading of garment products |
| Nor Europe Manufacturing Company Limited (formerly Nor Barcelona Manufacturing Company Limited)* | Hong Kong | US$ 100,000 | 70% | Inactive |
| Nor India Manufacturing Company Limited* | Hong Kong | US$10,000 | 100% | Trading of garment products |
| Nor Lanka Manufacturing Limited | Hong Kong | HK$10,000 | 100% | Trading of garment products |
| Sino West Manufacturing Company Limited* | Hong Kong | HK$10,000 | 80% | Dormant |
| Spring Near East Manufacturing Company Limited | Hong Kong | US$10,000 | 100% | Trading of garment products |

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

\# The subsidiary is registered as a wholly-foreign-owned enterprise under the PRC law.

## 14. AVAILABLE-FOR-SALE INVESTMENTS

| | Group and Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$** | HK$ |
| Unit trusts, at fair value | **1,958,573** | 2,643,052 |

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$70,025 (2011: gross gain of HK$39,882).

The above investments consist of investments in unit trusts which have been designated as available-for-sale investments and have no fixed maturity date or coupon rate.

The fair values of the unit trusts are based on quoted market prices.

## 15. INVENTORIES

The Group's inventories represented fabrics sourced for supplies to manufacturers for their production of garments for the Group.

## 16. TRADE AND BILLS RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Trade receivables | **352,873,292** | 123,429,613 | **185,414,144** | 77,358,488 |
| Bills receivable | **25,701,983** | 176,943,480 | **25,169,543** | 175,198,643 |
| | **378,575,275** | 300,373,093 | **210,583,687** | 252,557,131 |

The Group's and the Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are non-interest-bearing and are on terms of up to 120 days. The Group and the Company seek to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. There is no significant concentration of credit risk.

An aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Neither past due nor impaired | **297,866,909** | 255,604,867 | **170,557,649** | 222,342,393 |
| Past due but not impaired: | | | | |
| Less than one month | **65,328,489** | 43,200,567 | **38,061,634** | 28,647,079 |
| One to three months | **13,379,389** | 1,474,399 | **1,964,404** | 1,474,399 |
| Over three months | **2,000,488** | 93,260 | **–** | 93,260 |
| | **378,575,275** | 300,373,093 | **210,583,687** | 252,557,131 |

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

As at the end of the reporting period, the Group and Company had transferred certain bills of exchange amounting to HK$54,878,840 (2011: HK$56,030,023) and HK$20,007,454 (2011: HK$38,209,337), respectively, to banks with recourse in exchange for cash, respectively. The proceeds of the Group and the Company from transferring the bills receivable ofHK$54,511,623 (2011: HK$56,030,023) and HK$19,886,232 (2011: HK$38,209,337), respectively, have been accounted for as collateralised bank advances and have been included in interest-bearing bank borrowings until the bills are collected or the Group/Company makes good of any losses incurred by the banks (note 18).

Receivables that were past due but not impaired relate to a number of customers that have had a good track record with the Group and the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group and the Company do not hold any collateral or other credit enhancements over these balances.

## 17. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Cash and bank balances | **10,968,860** | 14,957,334 | **8,443,923** | 10,509,443 |
| Time deposits | **104,189,873** | 74,381,185 | **104,189,873** | 74,381,185 |
| | **115,158,733** | 89,338,519 | **112,633,796** | 84,890,628 |
| Less: Pledged time deposits: | | | | |
| Pledged for bank loans and bank overdraft facilities (note 18) | **(104,189,873)** | (74,381,185) | **(104,189,873)** | (74,381,185) |
| Cash and cash equivalents | **10,968,860** | 14,957,334 | **8,443,923** | 10,509,443 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,699,819 (2011: HK$162,762). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 18. INTEREST-BEARING BANK BORROWINGS

| Group | 2012 Contractual interest rate (%) | 2012 Maturity | 2012 HK$ | 2011 Contractual interest rate (%) | 2011 Maturity | 2011 HK$ |
|---|---|---|---|---|---|---|
| Mortgage loan (note (b))* | **2.25% over 1 month HIBOR** | **2016/ on demand** | **4,791,860** | 2.25% over 1 month HIBOR | 2016/ on demand | 5,876,900 |
| Mortgage loan (note (c))* | **2% below BLR** | **2017/ on demand** | **6,175,000** | 2% below BLR | 2017/ on demand | 7,315,000 |
| Term loan (note (d))* | **1% over 1 month HIBOR** | **2017/ on demand** | **2,406,000** | 1% over 1 month HIBOR | 2017/ on demand | 2,838,000 |
| Bank overdrafts** | **Higher of prime rate +1.5% and cost of funding+2%** | **On demand** | **777,393** | Higher of prime rate +1.5% and cost of funding+ 2% | On demand | 179,778 |
| Collateralised bank advances*** | **Either on HIBOR+2.25%, LIBOR+2.5% or standard finance rates+1.5%** | **2012** | **54,511,623** | Either on HIBOR+2.25%, LIBOR+2.5% or standard finance rates+1.5% | 2011 | 56,030,023 |
| Trust receipt loans**** | **Cost of funding+2%, cost of funding+2.25%, LIBOR+2.5%, HIBOR+2.25%, standard finance rates+ 1.5%, prime rate, highest of USD prime rate+2%, cost of funding+2% or USD LIBOR+3.5%, or higher of LIBOR+3% or branch cost of funding+2%** | **2012** | **154,424,855** | Cost of funding+2%, cost of funding+2.25%, LIBOR+2.5%, HIBOR+2.25%, standard finance rates+ 1.5%, prime rate, highest of USD prime rate+2%, cost of funding+2% or USD LIBOR+3.5%, or higher of LIBOR+3% or branch cost of funding+2% | 2011 | 129,022,111 |
| | | | **223,086,731** | | | 201,261,812 |

| Company | 2012 Contractual interest rate (%) | 2012 Maturity | 2012 HK$ | 2011 Contractual interest rate (%) | 2011 Maturity | 2011 HK$ |
|---|---|---|---|---|---|---|
| Mortgage loan (note (b))* | **2.25% over 1 month HIBOR** | **2016/ on demand** | **4,791,860** | 2.25% over 1 month HIBOR | 2016/ on demand | 5,876,900 |
| Mortgage loan (note (c))* | **2% below BLR** | **2017/ on demand** | **6,175,000** | 2% below BLR | 2017/ on demand | 7,315,000 |
| Term loan (note (d))* | **1% over 1 month HIBOR** | **2017/ on demand** | **2,406,000** | 1% over 1 Month HIBOR | 2017 / on demand | 2,838,000 |
| Bank overdrafts** | **Higher of prime rate +1.5% or cost of funding+2%** | **On demand** | **777,393** | Higher of prime rate +1.5% or cost of funding+ 2% | On demand | 179,778 |
| Collateralised bank advances*** | **Either on HIBOR+2.25%, LIBOR+2.5% or standard finance rates+ 1.5%** | **2012** | **19,886,232** | Either on HIBOR+2.25%, LIBOR+2.5% or standard finance rates+1.5% | 2011 | 38,209,337 |
| Trust receipt loans**** | **Either on cost of funding+2%, cost of funding+2.25%, LIBOR+2.5%, HIBOR+2.25%, standard finance rates+ 1.5%, prime rate, highest of USD prime rate+2%, cost of funding+2% or USD LIBOR+3.5%, or higher of LIBOR+3% or branch cost of funding+2%** | **2012** | **136,341,095** | Either on cost of funding+2%, cost of funding+2.25%, LIBOR+2.5%, HIBOR+2.25%, standard finance rates+ 1.5%, prime rate, highest of USD prime rate+2%, cost of funding+2% or USD LIBOR+3.5%, or higher of LIBOR+3% or branch cost of funding+2% | 2011 | 113,904,541 |
| | | | **170,377,580** | | | 168,323,556 |

* Denominated in HK$

** Denominated in HK$, United States dollar and Indian Rupee

*** Denominated in British Pound Sterling and United States dollar

**** Denominated in Euro, British Pound Sterling and United States dollar

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Analysed into: | | | | |
| Bank loans and overdrafts repayable within one year | **212,370,911** | 187,888,952 | **159,661,760** | 154,950,696 |
| Bank loans and overdrafts that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause | **10,715,820** | 13,372,860 | **10,715,820** | 13,372,860 |
| Amounts shown under current liabilities | **223,086,731** | 201,261,812 | **170,377,580** | 168,323,556 |

Notes:

(a) The Group's banking facilities are secured by way of:

(i) the pledged of certain of the Group's time deposits and marketable securities;

(ii) bank guarantees with aggregate ofUS$1,800,000;

(iii) guarantees from the ultimate holding company, fellow subsidiaries, directors of the Company and a related party; and

(iv) certain of the Group's and the Company's insurance deposits.

(b) The bank loan is secured by the Group's investment properties (note 12 to the financial statements), interest-bearing at 2.25% over one month HIBOR per annum and repayable by 119 equal monthly installments which commenced on 10 September 2006.

(c) The bank loan is secured by the Group's investment properties (note 12 to the financial statements), interest-bearing at 2% below the related banks' best lending rate per annum and repayable by 120 equal monthly installments which commenced on 30 September 2007.

(d) The term loan is secured by the pledge of certain insurance policies, interest-bearing at 1% over one month HIBOR per annum and repayable by 83 equal monthly installments which commenced on 8 October 2010.

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

Assets

| | Group and Company | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$** | HK$ |
| Foreign currency contracts | **–** | 1,271,454 |

Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Foreign currency contracts | **6,991,434** | 6,749,944 | **5,470,937** | 6,349,453 |

*Cash flow hedges*

At 31 March 2012, the Group and the Company held 171 and 128 forward currency contracts (2011: 119 and 109), respectively, and they are designated as hedges in respect of expected future sales to customers in the United Kingdom for which the Group and the Company have firm commitments.

The terms of the forward currency contracts have been negotiated to match the terms of the commitments. The cash flow hedges relating to expected future sales between April 2012 and December 2012 were assessed to be highly effective and a net loss of HK$l,263,308 (2011: HK$18,035,627) was included in the hedging reserve for the year.

## 20. DEFERRED TAX LIABILITIES/(ASSETS)

The movements in deferred tax liabilities/(assets) during the year are as follows:

**Group**

| | Depreciation allowance in excess of related depreciation | Cash flow hedges | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| At 1 April 2010 | 69,027 | 2,659,975 | 2,729,002 |
| Deferred tax charged to the income statement during the year (note 8) | 281,613 | – | 281,613 |
| Deferred tax credited to other comprehensive loss during the year | – | (3,563,926) | (3,563,926) |
| At 31 March 2011 and 1 April 2011 | 350,640 | (903,951) | (553,311) |
| Deferred tax charged to the income statement during the year (note 8) | 79,557 | – | 79,557 |
| Deferred tax credited to other comprehensive loss during the year | – | (249,636) | (249,636) |
| At 31 March 2012 | 430,197 | (1,153,587) | (723,390) |

**Company**

| | Depreciation allowance in excess of related depreciation | Cash flow hedges | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| At 1 April 2010 | 69,027 | 2,659,975 | 2,729,002 |
| Deferred tax credited to the income statement during the year | (16,021) | – | (16,021) |
| Deferred tax credited to other comprehensive income during the year | – | (3,497,845) | (3,497,845) |
| At 31 March 2011 and 1 April 2011 | 53,006 | (837,870) | (784,864) |
| Deferred tax credited to the income statement during the year | (59,990) | – | (59,990) |
| Deferred tax credited to other comprehensive loss during the year | – | (64,835) | (64,835) |
| At 31 March 2012 | (6,984) | (902,705) | (909,689) |

## 21. SHARE CAPITAL

| | **2012** | 2011 |
|---|---|---|
| | **HK$** | HK$ |
| Authorised, issued and fully paid: | | |
| 1,200,000 ordinary shares ofUS$1 each - US$ 1,200,000 | **9,336,000** | 9,336,000 |

## 22. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on pages 9 and 10 of the financial statements.

(b) Company

| | Issued capital HK$ | Available-for-sale investment revaluation reserve HK$ | Hedging reserve HK$ | Retained profits HK$ | Total equity HK$ |
|---|---|---|---|---|---|
| At 1 April 2010 | 9,336,000 | (215,351) | 13,461,089 | 200,244,567 | 222,826,305 |
| Profit for the year | – | – | – | 42,032,740 | 42,032,740 |
| Other comprehensive loss for the year | | | | | |
| Change in fair values of available-far-sale investments, net of tax | – | 39,882 | – | – | 39,882 |
| Cash flow hedges, net of tax | – | – | (17,701,217) | – | (17,701,217) |
| At 31 March 2011 and at 1 April 2011 | 9,336,000 | (175,469) | (4,240,128) | 242,277,307 | 247,197,710 |
| Profit for the year | – | – | – | 26,473,953 | 26,473,953 |
| Other comprehensive loss for the year | | | | | |
| Change in fair values of available-far-sale investments, net of tax | – | 238,176 | – | – | 238,176 |
| Cash flow hedges, net of tax | – | – | (328,103) | – | (328,103) |
| Interim dividend paid | – | – | – | (3,112,000) | (3,112,000) |
| At 31 March 2012 | 9,336,000 | 62,707* | (4,568,231)* | 265,639,260* | 270,469,736 |

* These reserve accounts comprise the reserves of HK$261,133,736 (2011: HK$237,861,710) in the Company's statement of financial position.

## 23. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Group 2012 HK$ | Group 2011 HK$ | Company 2012 HK$ | Company 2011 HK$ |
|---|---|---|---|---|
| Guarantees given to banks in connection with facilities granted to: | | | | |
| A subsidiary and fellow subsidiaries | **–** | – | **242,562,000** | 188,672,000 |
| Fellow subsidiaries | **242,562,000** | 188,672,000 | **–** | – |

These amounts represent the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. At 31 March 2012, the banking facilities granted to a subsidiary and fellow subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$201,829,747 (2011: HK$121,252,993), and the banking facilities guaranteed by the Group to fellow subsidiaries were utilised to the extent of approximately HK$151,424,351 (2010: HK$88,314,737).

## 24. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group and the Company lease its investment property (note 12 to the financial statements) under an operating lease arrangement with lease negotiated for a term of four years.

At 31 March 2011, the Group and the Company had total future minimum lease receivables under a non-cancellable operating lease falling due as follows:

| | Group and Company 2012 HK$ | Group and Company 2011 HK$ |
|---|---|---|
| Within one year | **120,132** | 120,132 |
| In the second to fifth years, inclusive | **22,692** | 142,824 |
| | **142,824** | 262,956 |

(b) As lessee

The Group leases certain of its staff quarters and office properties under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to four years.

At 31 March 2012, the Group and the Company had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

| | Group 2012 HK$ | Group 2011 HK$ | Company 2012 HK$ | Company 2011 HK$ |
|---|---|---|---|---|
| Within one year | **3,544,829** | 3,839,861 | **2,676,057** | 3,214,523 |
| In the second to fifth years, inclusive | **5,386,988** | 2,054,068 | **4,687,348** | 1,605,910 |
| | **8,931,817** | 5,893,929 | **7,363,405** | 4,820,433 |

## 25. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| Fellow subsidiaries: | | | |
| Sales of goods | (i) | **10,445,320** | 64,939,406 |
| Purchases of goods | (ii) | **27,625,780** | 507,530 |
| Handling fees received | (iii) | **17,580,012** | 7,769,113 |
| Marketing fees paid | (iv) | **111,265,355** | 128,996,361 |
| Rentals received | (v) | **1,875,840** | 1,922,520 |
| Interest received | (vi) | **641,126** | 708,639 |
| Service fees received | (vii) | **232,440** | 249,965 |
| Other administrative and general expenses paid | (viii) | **12,086,682** | 347,183 |
| Sampling fees received | (ix) | **10,464,386** | 13,773,184 |
| Immediate holding company: | | | |
| Management fees paid | (x) | **14,628,820** | 11,441,564 |
| Marketing fee paid | (x) | **12,362,296** | – |
| Ultimate holding company: | | | |
| Other administrative and general expenses paid | (viii) | **3,249,893** | 4,285,890 |

Notes:

(i) The sales were made according to the prices and conditions similar to those offered to the major customers of the Group.

(ii) The purchases were made according to the prices and conditions offered by the fellow subsidiaries to their respective major customers.

(iii) The handling fees received were charged at rates ranging from 2% to 5.25% based on the values of the sales transactions.

(iv) The marketing fees paid were related to the provision of marketing services provided by fellow subsidiaries and were based on terms mutually agreed between the Group and the respective fellow subsidiaries.

(v) The rentals received were based on the area of the office space occupied and at terms mutually agreed between the Group and the respective fellow subsidiaries.

(vi) The interest was charged at 7.5% per annum in respect of an amount due from a fellow subsidiary.

(vii) The service fees received were charged based on a certain percentage of general expenses incurred by the Group which were directly attributable to services rendered to the respective fellow subsidiaries.

(viii) The other administrative and general expenses charged by the fellow subsidiaries and the ultimate holding company were based on actual costs incurred.

(ix) The sampling fees received were charged at terms mutually agreed between the Group and the respective fellow subsidiaries.

(x) The management fees and marketing fee paid were charged at terms mutually agreed between the Group and the immediate holding company.

(b) Outstanding balances with related parties:

(i) Except for an unsecured amount due from a fellow subsidiary of HK$985,824 (2011: HK$6,979,297) as at 31 March 2012 which is interest-bearing at 7.5% per annum and has no fixed terms of repayment, all balances with fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(ii) The amounts due from non-controlling shareholders, included in current assets, are unsecured, interest-free and have no fixed terms of repayment.

(iii) The balances with the immediate holding company and the ultimate holding company, included in current liabilities, are unsecured, interest-free and have no fixed terms of repayment.

(iv) The amount due to the immediate holding company, included in non-current liabilities, is unsecured, interest-free and not repayable within one year from the end of the reporting period.

**26. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2012**

**Financial assets - Group**

| | Loans and receivables | Available for-sale financial assets | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Available-for-sale investments | – | 1,958,573 | 1,958,573 |
| Trade and bills receivables | 378,575,275 | – | 378,575,275 |
| Financial assets included in prepayments, deposits and other receivables | 8,897,976 | – | 8,897,976 |
| Due from the ultimate holding company | 271,569 | – | 271,569 |
| Due from fellow subsidiaries | 82,064,549 | – | 82,064,549 |
| Due from non-controlling shareholders | 248,960 | – | 248,960 |
| Pledged time deposits | 104,189,873 | – | 104,189,873 |
| Cash and bank balances | 10,968,860 | – | 10,968,860 |
| | 585,217,062 | 1,958,573 | 587,175,635 |

**Financial liabilities - Group**

| | Financial liabilities at fair value through the profit or loss - held for trading | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Trade and bills payables | – | 180,285,947 | 180,285,947 |
| Financial liabilities included in other payables and accruals | – | 15,381,198 | 15,381,198 |
| Interest-bearing bank borrowings | – | 223,086,731 | 223,086,731 |
| Due to the immediate holding company | – | 5,125,030 | 5,125,030 |
| Due to fellow subsidiaries | – | 12,745,657 | 12,745,657 |
| Derivative financial instruments | 6,991,434 | – | 6,991,434 |
| | 6,991,434 | 436,624,563 | 443,615,997 |

**Financial assets - Company**

| | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Available-for-sale investments | – | 1,958,573 | 1,958,573 |
| Trade and bills receivables | 210,583,687 | – | 210,583,687 |
| Financial assets included in prepayments, deposits and other receivables | 7,192,197 | – | 7,192,197 |
| Due from the ultimate holding company | 428,226 | – | 428,226 |
| Due from the immediate holding company | 435,680 | – | 435,680 |
| Due from fellow subsidiaries | 106,314,976 | – | 106,314,976 |
| Due from subsidiaries | 81,803,093 | – | 81,803,093 |
| Pledged time deposits | 104,189,873 | – | 104,189,873 |
| Cash and bank balances | 8,443,923 | – | 8,443,923 |
| | 519,391,655 | 1,958,573 | 521,350,228 |

**Financial liabilities - Company**

| | Financial liabilities at fair value through profit or loss - held for trading | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Trade and bills payables | – | 99,063,802 | 99,063,802 |
| Financial liabilities included in other payables and accruals | – | 13,941,928 | 13,941,928 |
| Interest–bearing bank borrowings | – | 170,377,580 | 170,377,580 |
| Due to fellow subsidiaries | – | 6,400,859 | 6,400,859 |
| Derivative financial instruments | 5,470,937 | – | 5,470,937 |
| | 5,470,937 | 289,784,169 | 295,255,106 |

**2011**

**Financial assets - Group**

| | Financial asset at fair value through profit or loss - held for trading | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ |
| Available-for-sale investments | – | – | 2,643,052 | 2,643,052 |
| Trade and bills receivables | – | 300,373,093 | – | 300,373,093 |
| Financial assets included in prepayments, deposits and other receivables | – | 17,298,124 | – | 17,298,124 |
| Due from fellow subsidiaries | – | 78,425,083 | – | 78,425,083 |
| Derivative financial instruments | 1,271,454 | – | – | 1,271,454 |
| Pledged time deposits | – | 74,381,185 | – | 74,381,185 |
| Cash and bank balances | – | 14,957,334 | – | 14,957,334 |
| | 1,271,454 | 485,434,819 | 2,643,052 | 489,349,325 |

**Financial liabilities - Group**

| | Financial liabilities at fair value through profit or loss - held for trading | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Trade and bills payables | – | 125,358,062 | 125,358,062 |
| Financial liabilities included in other payables and accruals | – | 12,061,970 | 12,061,970 |
| Interest-bearing bank borrowings | – | 201,261,812 | 201,261,812 |
| Due to the ultimate holding company | – | 416,213 | 416,213 |
| Due to the immediate holding company | – | 3,180,939 | 3,180,939 |
| Due to fellow subsidiaries | – | 5,054,064 | 5,054,064 |
| Derivative financial instruments | 6,749,944 | – | 6,749,944 |
| | 6,749,944 | 347,333,060 | 354,083,004 |

**Financial assets - Company**

| | Financial assets at fair value through profit or loss - held for trading | Loans and receivables | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ |
| Available-for-sale investments | – | – | 2,643,052 | 2,643,052 |
| Trade and bills receivables | – | 252,557,131 | – | 252,557,131 |
| Financial assets included in prepayments, deposits and other receivables | – | 15,676,249 | – | 15,676,249 |
| Due from fellow subsidiaries | – | 78,425,083 | – | 78,425,083 |
| Due from subsidiaries | – | 64,840,031 | – | 64,840,031 |
| Derivative financial instruments | 1,271,454 | – | – | 1,271,454 |
| Pledged time deposits | – | 74,381,185 | – | 74,381,185 |
| Cash and bank balances | – | 10,509,443 | – | 10,509,443 |
| | 1,271,454 | 496,389,122 | 2,643,052 | 500,303,628 |

**Financial liabilities - Company**

| | Financial liabilities at fair value through profit or loss - held for trading | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Trade and bills payables | – | 116,306,276 | 116,306,276 |
| Financial liabilities included in other payables and accruals | – | 11,112,034 | 11,112,034 |
| Interest-bearing bank borrowings | – | 168,323,556 | 168,323,556 |
| Due to the ultimate holding company | – | 416,213 | 416,213 |
| Due to the immediate holding company | – | 2,374,038 | 2,374,038 |
| Due to fellow subsidiaries | – | 2,520,322 | 2,520,322 |
| Derivative financial instruments | 6,349,453 | – | 6,349,453 |
| | 6,349,453 | 301,052,439 | 307,401,892 |

## 27. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 March 2012, the Group's and the Company's available-for-sale investments and derivative financial instruments were measured at Level 2 fair value.

During the years ended 31 March 2012 and 31 March 2011, there were no transfers of fair value measurements between Level I and Level 2, and no transfer into or out of Level 3.

The fair values of trade receivables, deposits and other receivables, amounts due from a fellow subsidiaries and non-controlling shareholders, pledged time deposits, cash and cash equivalents, trade and bills payables, other payables and accruals, amounts due to an ultimate holding company, the immediate holding company and fellow subsidiaries and interest-bearing bank borrowings approximated to their carrying amounts largely due to the short term maturities of these instruments.

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's exposure to interest rate risk, foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Group's financial management policies and practices described below:

*Interest rate risk*

The Group's interest rate risk arises from bank borrowings which bears interest at variable rates.

The following table demonstrates the sensitivity to a reasonably possible change in HK$ interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax | Increase/ (decrease) in equity |
|---|---|---|---|
| | | HK$ | HK$ |
| **2012** | | | |
| HK$ | **50** | **(1,115,434)** | **(1,115,434)** |
| HK$ | **(50)** | **1,115,434** | **1,115,434** |
| **2011** | | | |
| HK$ | 50 | (1,006,309) | (1,006,309) |
| HK$ | (50) | 1,006,309 | 1,006,309 |

*Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than the Group's functional currency. Approximately 59% (2011: 42%) of the Group's sales are denominated in currencies other than the functional currency of the Group. The Group uses forward currency contracts to eliminate the foreign currency exposures on its sales transactions, for which the corresponding settlements are anticipated to take place more than one month after the Group has entered into firm commitments for the sales. The forward currency contracts must be in the same currency as that of the hedged items. The Group negotiates the terms of the hedge derivatives to match the terms of the hedged items to maximise hedge effectiveness. It is the Group's policy that a forward contract is not entered into until a firm commitment is in place.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the British Pound Sterling ("GBP") exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Change in the GBP exchange rate | Increase/ (decrease) in profit before tax |
|---|---|---|
| | % | HK$ |
| **31 March 2012** | | |
| If HK$ weakens against GBP | **10.0** | **(15,559,578)** |
| If HK$ strengthens against GBP | **(10.0)** | **15,559,578** |
| **31 March 2011** | | |
| If HK$ weakens against GBP | 10.0 | 10,351,942 |
| If HK$ strengthens against GBP | (10.0) | (10,351,942) |

*Credit risk*

The Group trades on credit terms only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise deposits and other receivables, amounts due from group companies, bank balances and pledged time deposits, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. As the Group's trade receivables relate to diversified debtors, there is no significant concentration of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 16 to the financial statements.

*Liquidity risk*

In the management of liquidity risk, the Group monitors and maintains a level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding through the use of bank overdrafts, bank loans and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**2012 - Group**

| | Within one year or on demand |
|---|---|
| | HK$ |
| Trade and bills payables | **180,285,947** |
| Other payables and accruals | **16,841,780** |
| Interest-bearing bank borrowings | **225,061,213** |
| Due to the immediate holding company | **5,125,030** |
| Due to fellow subsidiaries | **12,745,657** |
| Derivative financial instruments | **6,991,434** |
| Guarantees given to banks in connection with facilities granted to fellow subsidiaries (note 23) | **151,424,351** |
| | **598,475,412** |

**2012 - Company**

| | Within one year or on demand |
|---|---|
| | HK$ |
| Trade and bills payables | **99,063,802** |
| Other payables and accruals | **15,319,955** |
| Interest-bearing bank borrowings | **171,866,851** |
| Due to fellow subsidiaries | **6,400,859** |
| Derivative financial instruments | **5,470,937** |
| Guarantees given to banks in connection with facilities granted to a subsidiary and fellow subsidiaries (note 23) | **201,829,747** |
| | **499,952,151** |

**2011 - Group**

| | Within one year or on demand | More than one year but less than two years | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Trade and bills payables | 125,358,062 | – | 125,358,062 |
| Other payables and accruals | 12,061,970 | – | 12,061,970 |
| Interest-bearing bank borrowings | 202,673,103 | – | 202,673,103 |
| Due to the ultimate holding company | 416,213 | – | 416,213 |
| Due to the immediate holding company | 807,971 | 2,372,968 | 3,180,939 |
| Due to fellow subsidiaries | 5,054,064 | – | 5,054,064 |
| Derivative financial instruments | 6,749,944 | – | 6,749,944 |
| Guarantees given to banks in connection with facilities granted to fellow subsidiaries (note 23) | 88,314,737 | – | 88,314,737 |
| | 441,436,064 | 2,372,968 | 443,809,032 |

**2011 - Company**

| | Within one year or on demand | More than one year but less than two years | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Trade and bills payables | 116,306,276 | – | 116,306,276 |
| Other payables and accruals | 11,112,034 | – | 11,112,034 |
| Interest-bearing bank borrowings | 169,507,194 | – | 169,507,194 |
| Due to the ultimate holding company | 416,213 | – | 416,213 |
| Due to the immediate holding company | 1,070 | 2,372,968 | 2,374,038 |
| Due to fellow subsidiaries | 2,520,322 | – | 2,520,322 |
| Derivative financial instruments | 6,349,453 | – | 6,349,453 |
| Guarantees given to banks in connection with facilities granted to a subsidiary and fellow subsidiaries (note 23) | 121,252,993 | – | 121,252,993 |
| | 427,465,555 | 2,372,968 | 429,838,523 |

*Capital management*

The primary objectives of the Group's capital management are to safeguard tbe Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its businesses and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 31 March 2011.

**29. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

## AUDIT REPORT

**ZRSZ(2012)NO.455**

**To the Grand pearl trading co. ltd:**

We have audited the accompanying financial statements of Grand pearl trading co. ltd, which comprise the balance sheet as at March 31, 2012, the statement of income and profit distribution, and the cash flow statement form April 2011 to March 2012, as well as notes to financial statements.

**I. Management's Responsibility for the Financial Statements**

The preparation of the financial statements in accordance with "China Accounting System for Business Enterprises" is the responsibility of the Grand pearl trading co. ltd. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) making accounting estimates that are reasonable in the circumstances.

**II. Certified Public Accountants' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Chinese Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**III. Audit Opinion**

In our opinion, the financial statements have been prepared in accordance with "China Accounting System for Business Enterprises", and present fairly, in all material respects, the financial position of Grand pearl trading co. ltd as of March 31, 2011, and the statement of profit distribution and the cash flow statement form April 2011 to March 2012.

**IV. Explanatory Paragraph**

In the course of our audit, we have reminded the management that, the accumulated operating loss is RMB 1,862,664.85 and the liabilities is RMB 838,989.85 more than the assets, which is influence on capacity of sustainable operation. This paragraph has no effect to our audit opinion.

Zhejiang Ruixin Certified Public Accountants Ltd. — Sd/- Certified Public Accountants

Hangzhou China — Sd/- Certified Public Accountants

The auditors' report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

Date of Report: April 14, 2012

## Balance Sheet

As of March 31, 2012

**Prepared by: Grand earl trading co. ltd**

Moneyary unit: RMB Yuan

| Assets | Line No. | Beginning Balance | Ending Balance | Liabilities and Owners' Equity | Line No. | Beginning Balance | Ending Balance |
|---|---|---|---|---|---|---|---|
| Current Assets | | | | Current liabilities | | | |
| Monetary Funds | 1 | 149,935.17 | 30,331.17 | Short-term loans | 68 | | |
| Short-term investments | 2 | | | Notes payable | 69 | | |
| Notes receivable | 3 | | | Accounts payable | 70 | 138,922.90 | 48,998.68 |
| Dividend receivable | 4 | | | Advances from customers | 71 | | |
| Interest receivable | 5 | | | Accrued payroll | 72 | 56,396.00 | |
| Accounts receivable | 6 | | | Welfare expenses payable | 73 | | |
| Other receivable | 7 | 7,416.99 | 7,416.99 | Dividend payable | 74 | | |
| Advances to suppliers | 8 | 19,615.90 | 22,427.90 | Taxes payable | 76 | -20,701.16 | 7,556.71 |
| Subsidies receivable | 9 | | | Rates payable | 80 | | |
| Inventories | 10 | 42,071.90 | 35,856.39 | Other payables | 81 | 1,182,662.87 | 1,142,346.17 |
| Prepaid expenses | 11 | 35,100.00 | | Accrued expenses | 82 | 9,549.20 | 42.00 |
| Long-term debt investment due within one year | 21 | | | Estimated liabilities | 83 | | |
| Other current assets | 24 | | | Long-term liabilities due within one year | 84 | | |
| Total current assets | 31 | 254,139.96 | 96,032.45 | Other current liabilities | 86 | | |
| | | | | | 90 | | |
| Long-term investments | | | | Total current liabilities | 100 | 1,366,829.81 | 1,198,943.56 |
| Long-term equity investments | 32 | | | Long-term liabilities | | | |
| Long-term debt investments | 34 | | | Long-term borrowings | 101 | | |
| Total long-term investments | 38 | | | Bonds payable | 102 | | |
| Including : consolidation difference | | | | Long-term payables | 103 | | |
| Including : equity investment difference | | | | Special payables | 106 | | |
| | | | | Other long-term liabilities | 108 | | |
| Fixed assets : | | | | Total long-term liabilities | 110 | | |
| Fixed assets cost | 39 | 285,660.06 | 353,181.43 | Deferred taxes : | | | |
| Less : accumulated depreciation | 40 | 12,141.21 | 89,260.17 | Deferred tax credit | 111 | | |
| Fixed asset : net book value | 41 | 273,518.85 | 263,921.26 | Total liabilities | 113 | 1,366,829.81 | 1,198,943.56 |
| Less : provision for impairment of fixed assets | 42 | | | | | | |

| Assets | Line No. | Beginning Balance | Ending Balance | Liabilities and Owners' Equity | Line No. | Beginning Balance | Ending Balance |
|---|---|---|---|---|---|---|---|
| Fixed assets : net | 43 | 273,518.85 | 263,921.26 | Minority interests | 114 | | |
| Construction materials | 44 | | | | | | |
| Construction in progress | 45 | | | | | | |
| Disposal of fixed assets | 46 | | | | 115 | | |
| Sub-total of fixed assets | 50 | 273,518.85 | 263,921.26 | Owners' equity | 116 | | |
| | | | | Paid-in capital | 117 | 1,023,675.00 | 1,023,675.00 |
| Intangible and others assets : | | | | Less : investment refund | 118 | | |
| Intangible assets | 51 | | | Paid-in capital: net | 119 | 1,023,675.00 | 1,023,675.00 |
| Long-term prepayments | 52 | 43,750.00 | | Capital surplus | 120 | | |
| Other long-term assets | 53 | | | Surplus reserve | 121 | | |
| Total Intangible and other assets | 60 | 43,750.00 | | Including: Statutory public welfare fund | 122 | | |
| | | | | Undistributed profit | 124 | -1,819,096.00 | -1,862,664.85 |
| Deferred taxes | | | | Including : Cash dividend to be distributed | 125 | | |
| Deferred tax debit | 61 | | | Difference arising from foreign currency financial statements transaction | 125 | | |
| | | | | Total owners' equity | 126 | -795,421.00 | -838,989.85 |
| Total assets | 67 | 571,408.81 | 359,953.71 | Total liabilities and owners' equity | 135 | 571,408.81 | 359,953.71 |

Legal representative: Officer in Charge of Accounting Work: Head of Accounting Department:

## STATEMENT OF INCOME AND PROFIT DISTRIBUTION

from April 2011 to March 2012

**Prepared by: Grand pearl trading co. ltd** Moneyaryunit: RMB Yuan

| | Items | Line No. | Perceding Period Comparative | Current Period Cumulative |
|---|---|---|---|---|
| 1. | Revenue from main operations | 1 | | 1, 269, 092. 16 |
| | Less : Cost of main operations | 4 | | 362,991. 98 |
| | Taxes & rates for main operations | 5 | | 20, 342. 41 |
| 2. | Profit / loss from main operations | 10 | | 885, 757. 77 |
| | Add : Profit / loss from other operations | 11 | | |
| | Less : Operating expenses | 14 | | |
| | General & Administrative expenses | 15 | | 904,637.85 |
| | Financial expenses | 16 | | 2,103.53 |
| 3. | Operating profit / loss | 18 | | -20,983.61 |
| | Add : Investment income | 19 | | |
| | Revenue from subsidies | 22 | | |
| | Non-operating revenue | 23 | | |
| | Less : Non-operating expenditures | 25 | | |
| 4. | Profit before income tax | 27 | | -20,983.61 |
| | Less : Income tax | 28 | | 22, 585. 24 |
| | Minority interest income | 29 | | |
| 5. | Net profit | 30 | | -43, 568. 85 |
| | Add - Undistributed profit at the beginning of the year | 31 | | -1,819, 096. 00 |
| | Other transfer-ins | 32 | | |
| 6. | Profit to be distributed | 33 | | -1,862, 664. 85 |
| | Less : Appropriation of statutory surplus reserve | 35 | | |
| | Appropriation of statutory public welfare fund | 36 | | |
| | Appropriation of employee reward & welfare fund | 37 | | |
| | Appropriation of reserve fund | 38 | | |
| | Appropriation of enterprise development fund | 39 | | |
| | Profit capitalized on return of investment | 40 | | |
| 7. | Profit to be distributed to investors | 41 | | -1,862,664.85 |
| | Less : Dividend payable on preferred stock | 42 | | |
| | Appropriation of discretionary surplus reserve | 43 | | |
| | Dividend payable on common stock | 44 | | |
| | Common stock dividend converted into capital | 45 | | |
| 8. | Undistributed profit | 46 | | -1. 862, 664.85 |

Legal representative: Officer in Charge of Accounting Work: Head in Charge of Accounting Department:

## CASH FLOW STATEMENT

from April 2011 to March 2012

**Prepared by: Grand pearl trading co. ltd** Moneyary unit: RMB Yuan

| | Items | Line No. | Amount | | Supplementary Information: | Line No. | Amount |
|---|---|---|---|---|---|---|---|
| 1. | Cash flows from operating activities: | | | 1. | Reconciliation or net profit to cash flows from operating activities: | | |
| | Cash receipts from sale of goods or rendering of services | 1 | 1,269,092.16 | | Net Profit | 57 | -43,568.85 |
| | | | | | Add: Minority interest income | | |
| | Refunds of taxes and rates | 3 | | | Provisions for impairment of assets | 58 | |
| | Other cash receipts relating to operating activities | 8 | 43,732.19 | | Depreciation of fixed assets | 59 | 77,118.96 |
| | Total cash inflows | 9 | 1,312,824.35 | | Amortization of intangible assets | 60 | |
| | Cash payments for goods and services | 10 | 479,843.86 | | Amortization of long-term prepayments | 61 | 43,750.00 |
| | Cash paid to and on behalf of employees | 12 | 615,883.74 | | Decrease in prepaid expenses (or less: increase) | 62 | 35,100.00 |
| | Cash payments for taxes and rates | 13 | 64,952.91 | | Increase in accrued expenses (or less: decrease) | 63 | -9,507.20 |
| | Other cash payments relating to operating activities | 18 | 204,226.17 | | Losses on disposal of fixed assets, intangible assets and other long-term | 64 | |
| | Total cash outflows | 20 | 1,364,906.98 | | assets (or less: gains) | 65 | |
| | Net cash flows from operating activities | 21 | -52,082.63 | | Losses on scrapping affixed assets | 66 | |
| 2. | Cash flows form investing activities: | | | | Financial expenses | 67 | |
| | Cash received from return of investments, | 22 | | | Investment losses (or less: gains) | 68 | |
| | Including: cash received from sale of subsidiaries | 23 | | | Deferred tax credit (or less: debit) | 69 | |
| | Cash received from return on investment | 24 | | | Decrease in inventories (or less: increase) | 70 | 6,215.51 |
| | Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | 25 | | | Decrease in operating receivables (or less: increase) | 71 | -2,812.00 |
| | Other cash receipts relating to investing activities | 28 | | | Increase in operating payables (or less: decrease) | 72 | -158,379.05 |
| | Total cash inflows | 29 | | | Others | 73 | |
| | Cash payments for acquiring fixed assets, intangible assets and other long-term assets | 30 | 67,521.37 | | Net cash flows from operating activities | 75 | -52,082.63 |
| | Cash payments for acquiring investments | 31 | | | | | |
| | Including : cash payments for acquiring subsidiaries | 32 | | | | | |
| | Other cash payments relating to investing activities | 35 | | | | | |
| | Total cash outflows | 36 | 67,521.37 | | | | |
| | Net cash flows from investing activities | 37 | -67,521.37 | | | | |
| 3. | Cash flows from financing activities: | | | 2. | Investing and financing activities unrelated to cash receipts and payments | | |
| | Cash received from investments by others | 38 | | | Conversion of debt into capital | 76 | |
| | Including: cash received from minority stockholders' investment by subsidiaries | 39 | | | Convertible bonds to be expired within one year | 77 | |
| | Cash received from borrowings | 40 | | | Fixed assets rented-in under finance lease | 78 | |
| | Other cash receipts relating to financing activities | 43 | | | | | |
| | Total cash inflows | 44 | | | | | |
| | Cash repayments of borrowings | 45 | | | | | |
| | Cash payments for distribution of dividends or profits and for interest expenses | 46 | | | | | |
| | Including: cash payments for distribution of dividends to minority stockholders by subsidiaries | 47 | | | | | |
| | Other cash payments relating to financing activities | 51 | | 3. | Net increase in cash and cash equivalents | | |
| | Including. cash payments to minority stockholders by subsidiaries due to capital reduction | 52 | | | Cash at the end of the period | 79 | 30,331.17 |
| | Total cash outflows | 53 | | | Less: cash at the beginning of the period | 80 | 149,935.17 |
| | Net cash flows from financing activities | 54 | | | Add: cash equivalents at the end of the period | 81 | |
| 4. | Effect of foreign exchange rate changes on cash | 55 | | | Less: cash equivalents at the beginning of the period | 82 | |
| 5. | Net increase in cash and cash equivalents | 56 | -119,604.00 | | Net increase in cash and cash equivalents | 83 | -119,604.00 |

Legal representative: Officer in Charge of Accounting Work: Head in Charge of Accounting Department:

## NOTES TO FINANCIAL STATEMENTS

from April 2011 to March 2012

Monetary unit: RMB Yuan

**I. Company Profile**

Grand pearl trading co.ltd (the "Company"), with the "Certificate of Approval for establishment of Enterprises with Investment of Taiwan, Hongkong, Macao And overseas chinese in the People's Republic of China" numbered Shang Wai Zi Zhe Fu Zi [2009] 06522 by Zhejiang Provincial People's Government. NORWEST INDUSTRIES LIMITED from Hong Kong investment in Taiwan, Hong Kong and Macao, established corporate-owned enterprise (limited liability company). On April 27 2009, the Company registered at Hangzhou Municipal Industry and Commerce Administration Bureau and obtained corporate business license numbered 330100400027941 ,with USD 150,000.00 as its registered capital and USD 150,000.00 as total investment. The Company operation term is a twenty-year period.

The Company mainly involves in: Clothing, apparel, household goods, textiles, wholesale business and related information and advice.

**II. Main accounting policies and estimates adopted by the Company**

(I) Accounting standards and accounting systems

The Company adopts "China Accounting System for Business Enterprises" and their supplementary regulations.

(II) Fiscal year

The fiscal year of the Company runs from January 1 to December 31 under the Gregorian calendar.

(III) Bookkeeping base currency

The Company takes Renminbi yuan (RMB) as its bookkeeping base currency.

(IV) Accounting basis and principle

The Company adopts the accrual basis and historical cost convention.

(V) Foreign currency translation

Transactions denominated in foreign currency are to be translated into RMB yuan at the average market rate (announced by the People's Bank of China) on the day of the transaction. At the end of a period, the balances of the foreign currency accounts are adjusted according to the average market rate on the last day of the period. The difference arising from the adjustment, if related to the acquisition of fixed assets which have not reached the expected useful conditions, shall be accounted for as the cost of the fixed assets; if occurred during the start-up period but not related to fixed assets, shall be recorded as "long-term prepayments"; otherwise, shall be recorded as "financial expenses".

(VI) Foreign currency financial statements translation

1. Assets and liabilities in the balance sheet are translated at the average market rate ruling at the balance sheet date; items of stockholders' equity, except "undistributed profit', are translated at the average market rate ruling at the date when related incrred, "undistributed profit" is stated at the amount of the translated statement of profit distribution. The difference between the translated assets, liabilities and stockholders' equity is stated as "foreign currency financial statements translation difference" after "undistributed profit".

2. Items in the income statement and current cumulative in the statement of profit distribution are translated at the weighted average exchange rate for the reporting period; "net profit" in the statement of profit distribution is stated at the translated amount in the income statement; "undistributed profit at the beginning of the year" is stated at the amount of "undistributed profit" translated in the preceding period; "undistributed profit" is stated at the calculated amount of the items in the statement of profit distribution.

(VII) Criteria of cash equivalents

For the purpose of cash flow statement, cash equivalents refer to high liquidity and easy redemption investments that the Company intends to hold for no more than three months with little value-fluctuation risks.

(VIII) Inventories

1. Inventories include raw materials, packaging materials, low-value consumables, work in process and goods on hand (or finished goods), held for sale, service or consumption during production.

2. All inventories are stated at the actual cost. Raw materials and finished goods dispatched from storage are accounted for with the weighted average method. Low-value consumables and packaging material consumed, put to lease or lend are fully charged to cost or expenses upon first usage.

3. Perpetual inventory method is adopted.

4. Where the cost of inventories (excluding materials held for production) is higher than the net realizable value because the inventories are damaged, completely or partially obsolescent, or the selling price is lower than the cost, a provision for inventory impairment loss shall be made on the difference between the cost and the lower net realizable value for individual inventory items. As for materials held for production, if the net realizable value of the finished goods is higher than the cost, the materials shall still be stated at cost. Only when the falling price of materials has caused the net realizable value of the finished goods to be lower than the cost, shall the materials be stated at their net realizable value.

(IX) Fixed assets and depreciation method

1. Fixed assets are assets with a useful life over 1 year and a high unit price, held for the purpose of production, service, rent or operation management.

2. Fixed assets are stated at the historical cost. Leasing fixed assets are stated at the lower of the original book value and the present value of the minimum leasing payment.

3. Depreciation of fixed assets is calculated under the straight-line method. The depreciation rate of fixed assets is set according to their original cost, deducting the estimated residual value (10% of the original cost, if the period of land use right is longer than the useful life of the related buildings and structures, the amount not amortized at the end of the useful life shall be accounted for as residual value of the land use right; and no residual value for capitalized decoration expenditures and improvement expenditures on fixed assets rented-in under operation lease) and the estimated useful life. The depreciation rates of different categories of fixed assets, if impairment loss is excluded are as follows:

| Categories | Useful Life (year) | Annual Depreciation rate (%) |
|---|---|---|
| Office equipments | 5 | 18.00 |
| Electronic equipments | 5 | 18.00 |
| Transport Facilities | 5 | 18.00 |

4. At the end of an accounting period, a provision for impairment loss shall be made for each fixed asset whose net realizable value falls below its net book value because of continuous declining price, technology obsolescence, scrap or idleness.

(X) Revenue recognition

1. Revenue from the sale of goods is recognized when all of the following conditions are satisfied:

(1) material risks and rewards concerning the ownership of the goods have been transferred to the buyer;

(2) the enterprise retains neither further managerial nor actual control of the goods,

(3) the related revenue has been received or the right to collect receivables is established; and

(4) the related cost of the goods sold can be reliably measured.

2. Revenue from services rendered is recognized when the service has been rendered, and the corresponding revenue has been received or the right to collect receivables has been established.

When the service starts and completes in different accounting years, the percentage of completion method is used to recognize revenue and cost, provided all the following conditions are met: the total amount of revenue from the service contract and degree of completion of services can be reliably estimated, the related revenue can flow Into the Company, the cost incurred and will be incurred can be measured reliably.

3. Revenue arising from allowing others use the Company's intangible assets (such as the trademark, patent, loyalty, software and copyright), and other non-cash assets, shall be accrued according to the terms stipulated by contract or agreement, and be recognized when: the related economic benefit can flow into the Company; the amount of revenue can be measured reliably.

(XI) Enterprise income tax

Tax payable method is used to account for enterprise income tax.

III. Main Taxes

(I) Value added tax

Levied at the rate of 17%.

(II) Enterprise income tax

Levied at the rate of 25%. There is no enterprise income tax payable as the Company is at loss for this year.

IV. Notes on items of financial statements

(I) Notes on items of balance sheet

1. Monetary funds

| Items | Beginning balance | Ending balance |
|---|---|---|
| Cash on hand | | |
| Cash in bank | 149,935.17 | 30,331.17 |
| Total | 149,935.17 | 30,331.17 |

2. Other receivables

(1) Age analysis

| | Beginning balance | | | | Ending balance | | | |
|---|---|---|---|---|---|---|---|---|
| Age | Book balance | Ratio (%) | Provision for bad debts | Carrying value | Book balance | Ratio (%) | Provision for bad debts | Carrying value |
| Within 1 year | 7,416.99 | 100.00% | | 7,416.99 | | | | |
| 1-2 year | | | | | 7,416.99 | 100.00% | | 7,416.99 |
| Total | 7,416.99 | 100.00% | | 7,416.99 | 7,416.99 | 100.00% | | 7,416.99 |

(2) Balances due from related parties.

| Related parties | Ending balance |
|---|---|
| Norwest Industries LTD Hangzhou Office | 7,416.99 |
| Subtotal | 7,416.99 |

3. Advances to supplies

(1) Age analysis

| | Beginning balance | | | | Ending balance | | | |
|---|---|---|---|---|---|---|---|---|
| Age | Book balance | Ratio (%) | Book balance | Ratio (%) | Book balance | Ratio (%) | Book balance | Ratio (%) |
| Within 1 year | 19,615.90 | 100.00% | | 19,615.90 | 2,812.00 | 12.54% | | 2,812.00 |
| 1-2 year | | | | | 19,615.90 | 87.46% | | 19,615.90 |
| Total | 19,615.90 | 100.00% | | 19,615.90 | 22,427.90 | 100% | | 22,427.90 |

4. Inventories

| Category | Beginning balance | Ending balance |
|---|---|---|
| | Book balance | Book balance |
| Goods | 42,071.90 | 35,856.39 |
| Total | 42,071.90 | 35,856.39 |

5. Prepaid Expenses

| Category | Opening balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Rent | 35,100.00 | 70,200.00 | 105,300.00 | |
| Total | 35,100.00 | 70,200.00 | 105,300.00 | |

5A Fixed assets

(1) Cost

| Category | Opening balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Production equipment | 57,060.30 | | | 57,060.30 |
| Electronic equipment | 228,599.76 | 67,521.37 | | 296,121.13 |
| Total | 285,660.06 | 67,521.37 | | 353,181.43 |

(2) Accumulated depreciation

| Category | Opening balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Production equipment | 10,101.15 | 19,020.10 | | 29,121.25 |
| Electronic equipment | 2,040.06 | 58,098.86 | | 60,138.92 |
| Total | 12,141.21 | 77,118.96 | | 89,260.17 |

(3) Net book value

| Category | Opening balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Production equipment | 46,959.15 | | 19,020.10 | 27,939.05 |
| Electronic equipment | 226,559.70 | 67,521.37 | 58,098.86 | 235,982.21 |
| Total | 273,518.85 | 67,521.37 | 77,118.96 | 263,921.26 |

6. Long-term prepayments

| Category | Opening balance | Increase | Decrease | Ending balance |
|---|---|---|---|---|
| Decoration | 43,750.00 | 37,500.01 | 81,250.01 | |
| Total | 43,750.00 | 37,500.01 | 81,250.01 | |

7. Accounts payable

(1) Age analysis

| | Beginning balance | | Ending balance | |
|---|---|---|---|---|
| Age | Book balance | Ratio (%) | Book balance | Ratio (%) |
| Within 1 year | 138,922.90 | 100.00% | 48,998.68 | 100.00% |
| Total | 138,922.90 | 100.00% | 48,998.68 | 100.00% |

8. Other payable

(1) Age analysis

| | Beginning balance | | Ending balance | |
|---|---|---|---|---|
| Age | Book balance | Ratio (%) | Book balance | Ratio (%) |
| Within 1 year | 1,182,662.87 | 100.00% | 1,142,346.17 | 100.00% |
| Total | 1,182,662.87 | 100.00% | 1,142,346.17 | 100.00% |

(2) Balances due to related parties

| Related parties | Ending balance |
|---|---|
| Norwest Industries LTD Hangzhou Office | 1,142,346.17 |
| Subtotal | 1,142,346.17 |

9. Paid-in capital Ending balance 1,023,675.00

(1) Details

| Investors | Beginning balance | | Increase/Decrease | | Ending balance | |
|---|---|---|---|---|---|---|
| | USD amount | RMB Amount | USD amount | RMB Amount | USD amount | RMB Amount |
| Norwest Industries Ltd. | 150,000.00 | 1,023,675.00 | | | 150,000.00 | 1,023,675.00 |
| Total | 150,000.00 | 1,023,675.00 | | | 150,000.00 | 1,023,675.00 |

10. Undistributed profit

| Details | |
|---|---|
| Beginning balance | -1,819,096.00 |
| Increase | |
| Decrease | 43,568,85 |
| Ending balance | -1,862,664.85 |

(II) Notes on items of the statement of income and profit distribution

1. Operating revenue Current period cumulative 1,2,69,092.16

All is domestic revenues.

2. Operating cost Current period cumulative 362,991.98

All is the cost of domestic revenues.

3. Financial expenses Current period cumulative 2,103.53

| **Item** | **Current period cumulative** |
|---|---|
| Interest expenses | 0.00 |
| Less: interest proceeds | 565.93 |
| Exchange gains and losses | |
| Bank charges | 2,669.46 |
| Total | 2,103.53 |

**V. Related party relationships and transactions**

(I) Related party relationships

| Related parties | Relationships with the Company |
|---|---|
| Norwest Industries Ltd. Hangzhou Office | Branch of controlled subsidiary of the stockholder of the Company |

(II) Related party transactions

Please check notes to items of financial statements for balances due to and from related parties.

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 March 2012.

**Principal activity**

The principal activity of the Company has not changed during the year and was the trading of garments.

**Results and dividends**

The Company's profit for the year ended 31 March 2012 and the state of affairs at that date are set out in the financial statements on pages 4 to 32.

The directors do not recommend the payment of any dividend in respect of the year.

**Property, plant and equipment**

Details of movements in the Company's property, plant and equipment during the year are set out in note 10 to the financial statements.

**Directors**

The directors of the Company during the year were:

Deepak Kumar Seth

Pallak Seth

In accordance with the Company's articles of association, all remaining directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

**Directors' interests**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**Directors' interests in contracts**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies or fellow subsidiaries was a party during the year.

**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

Sd/-
Chairman
Hong Kong

18 May 2012

## INDEPENDENT AUDITORS' REPORT

**To the shareholder of Nor Lanka Manufacturing Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Nor Lanka Manufacturing Limited set out on pages 4 to 32, which comprise the statement of financial position as at 31 March 2012, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2012, and of its profit and cash flows for the year then ended, in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Certified Public Accountants
Hong Kong

18 May 2012

## INCOME STATEMENT YEAR ENDED 31 MARCH 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| REVENUE | 5 | **763,653,872** | 93,522,614 |
| Cost of sales | | **(659,462,771)** | (81,764,776) |
| Gross profit | | **104,191,101** | 11,757,838 |
| Other income | 5 | **633,337** | 4,2 l 7,004 |
| Selling and distribution costs | | **(18,455,440)** | (3,182,689) |
| Administrative expenses | | **(52,675,167)** | (9,209,736) |
| Other operating expenses | | **(1,253,179)** | (292,963) |
| Finance costs | 7 | **(3,716,514)** | (452,105) |
| PROFIT BEFORE TAX | 6 | **28,724,138** | 2,837,349 |
| Income tax expense | 9 | **(4,494,600)** | (760,888) |
| PROFIT FOR THE YEAR | | **24,229,538** | 2,076,461 |

## STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 MARCH 2012

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| PROFIT FOR THE YEAR | **24,229,538** | 2,076,461 |
| OTHER COMPREHENSIVE LOSS: | | |
| Cash flow hedges | **(935,205)** | (334,410) |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | **(935,205)** | (334,410) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **23,294,333** | 1,742,051 |

## STATEMENT OF FINANCIAL POSITION 31 MARCH 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | **3,764,182** | 2,619,268 |
| CURRENT ASSETS | | | |
| Inventories | 11 | **91,491,640** | 51,979,998 |
| Trade and bills receivables | 12 | **146,465,797** | 47,815,962 |
| Prepayments, deposits and other receivables | | **8,771,286** | 4,892,700 |
| Due from a fellow subsidiary | 18(b) | **261,456** | – |
| Cash and cash equivalents | | **960,624** | 4,116,369 |
| Total current assets | | **247,950,803** | 108,805,029 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | | **63,988,719** | 9,051,786 |
| Other payables and accruals | | **1,289,183** | 736,466 |
| Due to an intermediate holding company | 18(b) | **5,444,010** | 806,900 |
| Due to the immediate holding company | 18(b) | **94,644,344** | 62,509,796 |
| Due to the ultimate holding company | 18(b) | **156,657** | – |
| Due to a fellow subsidiaries | 18(b) | **4,215,189** | 2,533,742 |
| Derivative financial instruments | 13 | **1,520,497** | 400,491 |
| Interest-bearing bank borrowings | 14 | **50,405,396** | 32,938,258 |
| Tax payable | | **4,818,307** | 463,254 |
| Total current liabilities | | **226,482,302** | 109,440,693 |
| NET CURRENT ASSETS/(LIABILITIES) | | **21,468,501** | (635,664) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **25,232,683** | 1,983,604 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 15 | **(186,299)** | (231,553) |
| Net assets | | **25,046,384** | 1,752,051 |
| EQUITY | | | |
| Issued capital | 16 | **10,000** | 10,000 |
| Reserves | | **25,036,384** | 1,742,051 |
| Total equity | | **25,046,384** | 1,752,051 |

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 MARCH 2012

| | Issued capital HK$ | Hedging reserve HK$ | Retained profits HK$ | Total equity HK$ |
|---|---|---|---|---|
| At 1 April 2010 | 10,000 | – | – | 10,000 |
| Profit for the year | – | – | 2,076,461 | 2,076,461 |
| Other comprehensive loss for the year: | | | | |
| Cash flow hedges, net of tax | – | (334,410) | – | (334,410) |
| At 31 March 2011 and at 1 April 2011 | 10,000 | (334,410) | 2,076,461 | 1,752,051 |
| Profit for the year | – | – | 24,229,538 | 24,229,538 |
| Other comprehensive loss for the year: | | | | |
| Cash flow hedges, net of tax | – | (935,205) | – | (935,205) |
| **At 31 March 2012** | **10,000** | **(1,269,615)*** | **26,305,999*** | **25,046,384** |

* These reserve accounts comprise the reserves of HK$ 25,036,384 (2011: HK$ 1,742,051) in the statement of financial position.

## STATEMENT OF CASH FLOWS YEAR ENDED 31 MARCH 2012

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **28,724,138** | 2,837,349 |
| Adjustments for: | | | |
| Interest income | 5 | **(1,005)** | (165) |
| Depreciation | 6 | **1,127,994** | 292,962 |
| Finance costs | 7 | **3,716,514** | 452,105 |
| | | **33,567,641** | 3,582,251 |
| Increase in inventories | | **(39,511,642)** | (51,979,998) |
| Increase in trade and bills receivables | | **(98,649,835)** | (47,815,962) |
| Increase in prepayments, deposits and other receivables | | **(3,878,586)** | (4,892,700) |
| Decrease in an amount due from the then immediate holding company | | **–** | 2,220 |
| Increase in an amount due from a fellow subsidiary | | **(261,456)** | – |
| Increase in trade and bills payables | | **54,936,933** | 9,051,786 |
| Increase in other payables and accruals | | **552,717** | 736,466 |
| Increase in an amount due to an intermediate holding company | | **4,637,110** | 806,900 |
| Increase in an amount due to the immediate holding company | | **32,134,548** | 62,509,796 |
| Increase in an amount due to the ultimate holding company | | **156,657** | – |
| Increase in due to fellow subsidiaries | | **1,681,447** | 2,533,742 |
| Cash used in operations | | **(14,634,466)** | (25,465,499) |
| Interest received | | **1,005** | 165 |
| Finance costs paid | | **(3,716,514)** | (452,105) |
| Net cash flows used in operating activities | | **(18,349,975)** | (25,917,439) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(2,272,908)** | (2,912,230) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from new bank loans, net | | **17,467,138** | 32,938,258 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **(3,155,745)** | 4,108,589 |
| Cash and cash equivalents at beginning of year | | **4,116,369** | 7,780 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **960,624** | 4,116,369 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **960,624** | 4,116,369 |

## NOTES TO FINANCIAL STATEMENTS

31 March 2012

### 1. CORPORATE INFORMATION

Nor Lanka Manufacturing Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 7/F, Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

During the year, the Company was engaged in the trading of garments.

The Company is a wholly-owned subsidiary of Norwest Industries Limited, a company incorporated in Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on the National Stock Exchange in India.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements are presented in Hong Kong dollars ("HK$") and have been prepared under the historical cost convention, except for the derivative financial instruments which have been measured at fair value.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain new and revised HKFRSs became effective for the first time during the current financial year but are not applicable to the Company, and accordingly, they have had no impact on the Company's financial statements for the year ended 31 March 2012.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the year ended 31 March 2012, in these financial statements. The Company is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Furniture and fixtures | 25% |
| Office equipment | $33^1/_3$% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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 Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Financial instruments

*Financial assets*

The Company's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in the income statement.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Company's financial liabilities are classified and accounted for as financial liabilities at amortised cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

<u>Derivative financial instruments and hedge accounting</u>

The Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship with which the Company wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument for cash flow hedges is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement in other operating expenses.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

<u>Income tax</u>

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

<u>Provisions</u>

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

<u>Revenue recognition</u>

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) commission income, when the services are rendered; and

(c) interest income, on an accrual basis using the effective interest method.

<u>Employee benefits</u>

*Pension schemes*

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Company's employer voluntary contributions, which are refunded to the Company when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Company who are based in Sri Lanka are required to participate in a central pension scheme operated by the local municipal government. The Company is required to contribute certain percentages of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currency transactions

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

**4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Company's financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are summarised as follows:

(a) Classification of financial instruments

Management has made judgements on the classification of financial assets and financial liabilities in the process of applying the Company's accounting policies, which have significant effect on the amounts recognised in the financial statements. The Company determines the classification of certain assets and liabilities as financial assets and financial liabilities by judging whether they meet the definition of financial assets and financial liabilities set out in HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39").

HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 require that the Company carries certain of its financial assets at fair value, which require an extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Company utilises different valuation methodologies. Any such changes in the fair values of these financial assets would affect directly the Company's financial position and equity.

(b) Impairment of trade and bills receivables

The Company maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Company makes its estimates based on the ageing of its trade and bills receivables balance, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Company would be required to revise the basis of making the allowance and its future results would be affected.

(c) Impairment of inventories

Management reviews the ageing analysis of inventories of the Company at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which estimate has been changed.

**5. REVENUE AND OTHER INCOME**

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold. An analysis of other income is as follows:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Interest income | **1,005** | 165 |
| Commission income | **–** | 137,994 |
| Marketing fee income | **632,332** | 569,348 |
| Foreign exchange differences, net | **–** | 3,509,497 |
| | **633,337** | 4,217,004 |

**6. PROFIT BEFORE TAX**

The Company's profit before tax is arrived at after charging/(crediting):

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Cost of inventories sold | **659,462,771** | 81,764,776 |
| Auditors' remuneration | **72,100** | 50,000 |
| Depreciation | **1,127,994** | 292,962 |
| Staff costs (excluding directors' remuneration (note 8)): | | |
| Salaries and allowances | **14,900,994** | 2,595,089 |
| Pension scheme contributions (defined contribution schemes) | **1,249,078** | 492,830 |
| | **16,150,072** | 3,087,919 |
| Minimum lease payments under operating leases of land and buildings | **816,970** | 205,763 |
| Foreign exchange differences, net | **125,185** | (3,509,497) |

**7. FINANCE COSTS**

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Interest on bank overdrafts | **–** | 90,033 |
| Interest on letters of credit | **3,716,514** | 362,072 |
| | **3,716,514** | 452,105 |

**8. DIRECTORS' REMUNERATION**

No directors received any fees or emoluments in respect of their services rendered to the Company during the year (2011: Nil).

**9. INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Charge for the year | **4,818,307** | 463,254 |
| Overprovision in the prior year | **(463,254)** | – |
| Deferred tax (note 15) | **139,547** | 297,634 |
| Tax charge for the year | **4,494,600** | 760,888 |

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory rate to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the Company's effective tax rate, are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | HK$ | % | HK$ | % |
| Profit before tax | **28,724,138** | **–** | 2,837,349 | – |
| Tax at the statutory tax rate | **4,739,482** | **16.5** | 468,163 | 16.5 |
| Adjustments in respect of current tax of previous periods | **(463,254)** | **(1.6)** | – | – |
| Income not subject to tax | **(166)** | **(0.0)** | (33,547) | (1.2) |
| Expenses not deductible for tax | **218,538** | **0.7** | 326,272 | 11.5 |
| Tax at the Company's effective tax rate | **4,494,600** | **15.6** | 760,888 | 26.8 |

There was no material unprovided deferred tax in respect of the year and as at the end of the reporting period (2011: Nil).

**10. PROPERTY, PLANT AND EQUIPMENT**

| | Furniture and fixtures HK$ | Office equipment HK$ | Total HK$ |
|---|---|---|---|
| **31 March 2012** | | | |
| At 31 March 2011 and 1 April 2011: | | | |
| Cost | 1,116,175 | 1,796,055 | 2,912,230 |
| Accumulated depreciation | (71,296) | (221,666) | (292,962) |
| Net carrying amount | 1,044,879 | 1,574,389 | 2,619,268 |
| At 1 April 2011, net of accumulated depreciation | 1,044,879 | 1,574,389 | 2,619,268 |
| Additions | 204,346 | 2,068,562 | 2,272,908 |
| Depreciation | (304,885) | (823,109) | (1,127,994) |
| At 31 March 2012, net of accumulated depreciation | 944,340 | 2,819,842 | 3,764,182 |
| At 31 March 2012: | | | |
| Cost | 1,320,521 | 3,864,617 | 5,185,138 |
| Accumulated depreciation | (376,181) | (1,044,775) | (1,420,956) |
| Net carrying amount | 944,340 | 2,819,842 | 3,764,182 |
| **31 March 2011** | | | |
| At 1 April 2010 | – | – | – |
| Additions | 1,116,175 | 1,796,055 | 2,912,230 |
| Depreciation | ( 71,296) | ( 221,666) | ( 292,962) |
| At 31 March 2011, net of accumulated depreciation | 1,044,879 | 1,574,389 | 2,619,268 |
| At 31 March 2011: | | | |
| Cost | 1,116,175 | 1,796,055 | 2,912,230 |
| Accumulated depreciation | ( 71,296) | ( 221,666) | ( 292,962) |
| Net carrying amount | 1,044,879 | 1,574,389 | 2,619,268 |

**11. INVENTORIES**

The Company's inventories represented fabrics sourced for supplies to manufacturers for their production of garments for the Company.

**12. TRADE AND BILLS RECEIVABLES**

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Trade receivables | **145,933,357** | 46,071,125 |
| Bills receivable | **532,440** | 1,744,837 |
| | **146,465,797** | 47,815,962 |

The Company's trading terms with its customers are mainly on credit. The credit period is generally one month. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Neither past due nor impaired | **106,099,653** | 33,262,474 |
| Past due but not impaired | | |
| Less than 30 days | **26,950,670** | 14,553,488 |
| Between 31 and 90 days | **11,414,985** | – |
| Over 90 days | **2,000,489** | – |
| | **146,465,797** | 47,815,962 |

Receivables that were neither past due nor impaired relate to customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to customers that have had a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Company does not hold any collateral or other credit enhancements over these balances.

As at the end of the reporting period, the Company had transferred certain bills of exchange amounting to HK$32,550,549 (2011: HK$17,820,686) to banks with recourse in exchange for cash. The proceeds from transferring the bills receivable of HK$32,321,636 (2011: HK$17,820,686) have been accounted for as collateralised bank advances and have been included in interest-bearing bank borrowings until the bills are collected or the Company makes good of any losses incurred by the banks (note 14).

**13. DERIVATIVE FINANCIAL INSTRUMENTS**

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| *Liabilities* | | |
| Foreign currency contracts | **1,520,497** | 400,491 |

*Cash flow hedges*

At 31 March 2012, the Company held 43 forward currency contracts (2011: 10) designated as hedges in respect of expected future sales to customers in the United Kingdom for which the Company has firm commitments.

The terms of the forward currency contracts have been negotiated to match the terms of the commitments. The cash flow hedges relating to expected future sales between April 2012 and November 2012 (2011: between June 2011 and December 2011) were assessed to be highly effective and a net loss of HK$1,269,615 (2011: HK$334,410)was included in the hedging reserve.

**14. INTEREST-BEARING BANK BORROWINGS**

| | Contractual interest rate (%) | Maturity | **2012 HK$** | 2011 HK$ |
|---|---|---|---|---|
| Trust receipts loans | LIBOR plus 3.5% or cost of funding plus 2% | April- June 2012 | **18,083,760** | 15,117,572 |
| Collateralised bank advances | LIBOR plus 3.5% | April 2012 | **32,321,636** | 17,820,686 |
| | | | **50,405,396** | 32,938,258 |

**Notes:**

(a) Certain of the Company's bank borrowings are secured by:

(i) a joint corporate guarantee from its ultimate holding company and its immediate holding company to the extent ofUS$5,000,000;

(ii) a corporate guarantee from the Company to the extent of HK$50,000,000; and

(iii) a corporate guarantee from the ultimate holding company to the aggregate of HK$280,000,000 and British Pound Sterling ("GBP") 30,000,000.

(b) The Company's trust receipt loans are all denominated in United States dollars whereas the collateralised bank advances are all denominated in GBP.

**15. DEFERRED TAX LIABILITIES**

The movements in deferred tax liabilities during the year are as follows:

| | Depreciation allowance in excess of related depreciation HK$ | Cash flow hedges HK$ | Total HK$ |
|---|---|---|---|
| At 1 April 2010 | – | – | – |
| Deferred tax charged to the income statement during the year (note 9) | 297,634 | – | 297,634 |
| Deferred tax credited to equity during the year | – | (66,081) | (66,081) |
| At 31 March 2011 and at 1 April 2011 | 297,634 | (66,081) | 231,553 |
| Deferred tax charged to the income statement during the year (note 9) | 139,547 | – | 139,547 |
| Deferred tax credited to equity during the year | – | (184,801) | (184,801) |
| At 31 March 2012 | 437,181 | (250,882) | 186,299 |

**16. SHARE CAPITAL**

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 10,000 ordinary shares of HK$1 each | **10,000** | 10,000 |

**17. OPERATING LEASE ARRANGEMENTS**

The Company leases its office property under an operating lease arrangement. The lease of its office property is negotiated for a term of two years.

At 31 March 2012 and 2011, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Within one year | **709,108** | 597,543 |
| In the second to fifth years, inclusive | **157,849** | 448,158 |
| | **866,957** | 1,045,701 |

**18. RELATED PARTY TRANSACTIONS**

(a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the year:

| | Notes | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| Immediate holding company: | | | |
| Management fees paid | (ii) | **–** | 1,966,138 |
| Marketing service fees paid | (ii) | **–** | 12,810,194 |
| Commission income received | (i) | **–** | (137,994) |
| Intermediate holding company: | | | |
| Management fees paid | (ii) | **1,685,693** | – |
| Marketing service fees paid | (ii) | **12,362,296** | – |
| Fellow subsidiaries: | | | |
| Sales of goods | (iii) | **1,576,060** | – |
| Logistics and storage charges paid | (iv) | **485,735** | – |
| Product design and development charges paid | (v) | **7,614,738** | – |
| Marketing service fees paid | (vi) | **3,501,000** | – |
| Management fees received | (vii) | **(295,820)** | – |

**Notes:**

(i) The commission income received was based on terms mutually agreed between the Company and the immediate holding company.

(ii) The management fees or marketing service fees paid were based on terms mutually agreed between the Company and the immediate holding company or the intermediate holding company.

(iii) The sales were made according to the prices and conditions similar to those offered to the major customers of the Company.

(iv) The logistics and storage charges paid were based on terms mutually agreed between the Company and a fellow subsidiary.

(v) The product design and development charges paid were based on terms mutually agreed between the Company and a fellow subsidiary.

(vi) The marketing service fees were paid for the introduction of customers by a fellow subsidiary, which were based on terms mutually agreed between the Company and a fellow subsidiary.

(vii) Management fee income was charged to a fellow subsidiary for the provision of administrative services which were based on terms mutually agreed between the Company and a fellow subsidiary.

(b) Outstanding balances with related parties:

The balances with the ultimate holding company, an intermediate holding company, the immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

**19. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting periods are as follows:

**2012**

Financial assets

| | Loans and receivables HK$ |
|---|---|
| Trade and bills receivables | 146,465,797 |
| Financial assets included in prepayments, deposits and other receivables | 252,929 |
| Due from a fellow subsidiaries | 261,456 |
| Cash and cash equivalents | 960,624 |
| | 147,940,806 |

Financial liabilities

| | Financial liabilities at fair value through profit or loss HK$ | Financial liabilities at amortised cost HK$ | Total HK$ |
|---|---|---|---|
| Trade and bills payables | – | 63,988,719 | 63,988,719 |
| Other payables and accruals | – | 1,289,183 | 1,289,183 |
| Due to the ultimate holding company | – | 156,657 | 156,657 |
| Due to an intermediate holding company | – | 5,444,010 | 5,444,010 |
| Due to the immediate holding company | – | 94,644,344 | 94,644,344 |
| Due to a fellow subsidiaries | – | 4,215,189 | 4,215,189 |
| Derivative financial instruments | 1,520,497 | – | 1,520,497 |
| Interest-bearing bank borrowings | – | 50,405,396 | 50,405,396 |
| | 1,520,497 | 220,143,498 | 221,663,995 |

2011

Financial assets

| | Loans and receivables HK$ |
|---|---|
| Trade and bills receivables | 47,815,962 |
| Financial assets included in prepayments, deposits and other receivables | 584,691 |
| Cash and cash equivalents | 4,116,369 |
| | 52,517,022 |

Financial liabilities

| | Financial liabilities at fair value through profit or loss HK$ | Financial liabilities at amortised cost HK$ | Total HK$ |
|---|---|---|---|
| Trade and bills payables | – | 9,051,786 | 9,051,786 |
| Other payables and accruals | – | 736,466 | 736,466 |
| Due to an intermediate holding company | – | 806,900 | 806,900 |
| Due to the immediate holding company | – | 62,509,796 | 62,509,796 |
| Due to fellow subsidiaries | – | 2,533,742 | 2,533,742 |
| Derivative financial instruments | 400,491 | – | 400,491 |
| Interest-bearing bank borrowings | – | 32,938,258 | 32,938,258 |
| | 400,491 | 108,576,948 | 108,977,439 |

**20. FAIR VALUE HIERARCHY**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 March 2012, the Company's derivative financial instruments were measured at Level 2 fair value.

During the year ended 31 March 2012, there were no transfers of fair value measurements between Level 1 and Level 2, and no transfers into or out of Level 3 (2011: Nil).

The fair values of trade receivables, deposits and other receivables, amount due from a fellow subsidiary, cash and cash equivalents, trade and bills payables, other payables and accruals, amounts due to an intermediate holding company, the immediate holding company and fellow subsidiaries, and interest-bearing bank borrowings approximated to their carrying amounts largely due to the short term maturities of these instruments.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's exposure to interest rate risk, foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

*Interest rate risk*

The Company's interest rate risk arises from bank borrowings which bear interest at variable rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings) and the Company's equity.

| | Increase/ (decrease) in basis points | (Decrease)/ increase in profit before tax HK$ | (Decrease)/ increase in equity HK$ |
|---|---|---|---|
| **2012** | | | |
| HK$ | 50 | (252,027) | (252,027) |
| HK$ | (50) | 252,027 | 252,027 |
| 2011 | | | |
| HK$ | 50 | (165,000) | (165,000) |
| HK$ | (50) | 165,000 | 165,000 |

*Foreign currency risk*

The Company has transactional currency exposures. Such exposures arise from sales or purchases by the Company in currencies (mainly GBP) other than the Company's functional currency. The Company mitigates the risk of foreign currency exposure by contracting with customers and suppliers primarily in the Company's functional currency, whenever possible.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the GBP exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Change in the GBP exchange rate % | Decrease/ (increase) in profit before tax HK$ | Decrease/ (increase) in equity |
|---|---|---|---|
| **31 March 2012** | | | |
| If HK$ weakens against GBP | 10.0 | 10,517,229 | (1,137,184) |
| If HK$ strengthens against GBP | (10.0) | (10,517,229) | 1,137,184 |
| 31 March 2011 | | | |
| If HK$ weakens against GBP | 10.0 | 3,210,630 | (2,525,524) |
| If HK$ strengthens against GBP | (10.0) | (3,210,630) | 2,525,524) |

*Credit risk*

The carrying amounts of cash and cash equivalents, trade and bills receivables, and deposits and other receivables represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's cash and cash equivalents are deposited with creditworthy banks with no recent history of default. The Company has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. The maximum exposure for trade and bills receivables is the carrying amount as disclosed in note 12 to the financial statements. At the end of the reporting period, the Group had certain concentration of credit risk as 79% (2011: 100%) of the Company's trade and bills receivables were due from the Company's largest customer.

*Liquidity risk*

The Company has minimal risk of shortage of funds as its ultimate holding company has agreed to provide adequate funds for the Company to meet its liabilities as and when they fall due. In the management of liquidity risk, the Company monitors and maintains level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from its ultimate holding company.

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

| | 2012 | | |
|---|---|---|---|
| | Within one month, on demand or without fixed terms HK$ | Over one month HK$ | Total HK$ |
| Trade and bills payables | 60,009,206 | 3,979,513 | 63,988,719 |
| Other payables and accruals | 1,289,183 | – | 1,289,183 |
| Due to the ultimate holding company | 156,657 | – | 156,657 |
| Due to an intermediate holding company | 5,444,010 | – | 5,444,010 |
| Due to the immediate holding company | 94,644,344 | – | 94,644,344 |
| Due to fellow subsidiaries | 4,215,189 | – | 4,215,189 |
| Derivative financial instruments | – | 1,520,497 | 1,520,497 |
| Interest-bearing bank borrowings | 45,068,450 | 5,495,447 | 50,563,897 |
| | 210,827,039 | 10,995,457 | 221,822,496 |

| | 2011 | | |
|---|---|---|---|
| | Within one month, on demand or without fixed terms HK$ | Over one month HK$ | Total HK$ |
| Trade and bills payables | 9,051,786 | – | 9,051,786 |
| Other payables and accruals | 736,466 | – | 736,466 |
| Due to an intermediate holding company | 806,900 | – | 806,900 |
| Due to the immediate holding company | 62,509,796 | – | 62,509,796 |
| Due to fellow subsidiaries | 2,533,742 | – | 2,533,742 |
| Derivative financial instruments | – | 400,491 | 400,491 |
| Interest-bearing bank borrowings | 31,958,417 | 2,329,897 | 34,288,314 |
| | 107,597,107 | 2,730,388 | 110,327,495 |

*Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to its shareholder, return capital to the shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 31 March 2011.

**22. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

## DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the period from 17 December 2010 (date of incorporation) to 31 March 2012.

Principal activity

The principal activity of the Company was the trading of garments.

Results and dividends

The Company's profit for the period from 17 December 2010 (date of incorporation) to 31 March 2012 and its state of affairs at 31 March 2012 are set out in the financial statements on pages 4 to 17.

The directors do not recommend the payment of any dividend in respect of the period.

Directors

The directors of the Company during the period were:

Deepak Kumar Seth (appointed on 17 December 2010)

Pallak Seth (appointed on 17 December 2010)

In accordance with article 7 of the Company's articles of association, both directors will retire and, being eligible, will offer themselves for re-election.

Directors' interests

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 of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies or fellow subsidiaries was a party during the period.

Auditors

Ernst & Young were appointed by the directors as the Company's first 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

Sd/-
Chairman
Hong Kong

Date: 18 May 2012

## Independent Auditors' Report

**To the shareholder of Nor India Manufacturing Company Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Nor India Manufacturing Company Limited set out on pages 4 to17, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 17 December 2010 (date of incorporation) to 31 March 2012, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2012, and of its profit and cash flows for the period from 17 December 2010 (date of incorporation) to 31 March 2012 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Certified Public Accountans
Hong Kong

18 May 2012

## STATEMENT OF COMPREHENSIVE INCOME

Period From 17 December 2010 (date of incorporation) to 31 March 2012

| | Notes | HK$ |
|---|---|---|
| **REVENUE** | 3 | 11,183,344 |
| Cost of sales | | (9,991,348) |
| Gross profit | | 1,191,996 |
| Other income | 3 | 8,551 |
| Administrative expenses | | ( 97,471) |
| Finance costs | 6 | ( 77,600) |
| PROFIT BEFORE TAX | | 1,025,476 |
| Income tax expense | 7 | ( 169,203) |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 856,273 |

## STATEMENT OF FINANCIAL POSITION

31 March 2012

| | Notes | HK$ |
|---|---|---|
| **CURRENT ASSETS** | | |
| Trade receivables | 8 | 6,738,803 |
| Bank balances | | 657,973 |
| Total current assets | | 7,396,776 |
| **CURRENT LIABILITIES** | | |
| Trade payables | | 3,463,016 |
| Accrual and other payables | | 47,082 |
| Due to an intermediate holding company | 11(ii) | 58,350 |
| Due to the immediate holding company | 11(ii) | 421,297 |
| Interest-bearing bank borrowings | 9 | 2,303,755 |
| Tax payable | | 169,203 |
| Total current liabilities | | 6,462,703 |
| Net assets | | 934,073 |
| **EQUITY** | | |
| Issued capital | 10 | 77,800 |
| Retained profits | | 856,273 |
| Total equity | | 934,073 |

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY

Period from 17 December 2010 (date of incorporation) to 31 March 2012

| | Notes | Issued capital HK$ | Retained profits HK$ | Total equity HK$ |
|---|---|---|---|---|
| Issue of shares on incorporation | 10 | 77,800 | – | 77,800 |
| Total comprehensive income for the period | | – | 856,273 | 856,273 |
| At 31 March 2012 | | 77,800 | 856,273 | 934,073 |

## STATEMENT OF CASH FLOWS

Period from 17 December 2010 (date of incorporation) to 31 March 2012

| | Notes | HK$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before tax | | 1,025,476 |
| Adjustments for: | | |
| Interest income | 3 | ( 45) |
| Finance costs | 6 | 77,600 |
| | | 1,103,031 |
| Increase in trade receivables | | (6,738,803) |
| Increase in trade payables | | 3,463,016 |
| Increase in an accrual and other payables | | 47,082 |
| Increase in an amount due to an intermediate holding company | | 58,350 |
| Increase in an amount due to the immediate holding company | | 421,297 |
| Cash used in operations | | (1,646,027) |
| Interest received | | 45 |
| Finance costs paid | | ( 77,600) |
| Net cash flows used in operating activities | | (1,723,582) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of shares | | 77,800 |
| Proceeds from interest-bearing bank borrowings | | 4,556,302 |
| Repayment of interest-bearing bank borrowings | | (2,252,547) |
| Net cash flows from financing activities | | 2,381,555 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | 657,973 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances | | 657,973 |

## NOTES TO FINANCIAL STATEMENTS

31 March 2012

### 1. CORPORATE INFORMATION

Nor India Manufacturing Company Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 7/F., Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

During the period, the Company was engaged in the trading of garments.

The Company is a wholly-owned subsidiary of Norwest Industries Limited, a company incorporated in Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on the National Stock Exchange in India.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements are presented in Hong Kong dollars ("HK$") and have been prepared under the historical cost convention.

### 2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the period ended 31 March 2012, in these financial statements. The Company is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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 Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, which are not restricted as to use.

Financial instruments

*Financial assets*

The Company's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of the reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Company's financial liabilities are classified and accounted for as financial liabilities at amortised cost. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Provisions

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method.

Foreign currency transactions

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the dates when their fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss).

**3. REVENUE AND OTHER INCOME**

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold.

An analysis of other income is as follows:

| | HK$ |
|---|---|
| Bank interest income | 45 |
| Foreign exchange gain | 8,348 |
| Others | 158 |
| | 8,551 |

**4. AUDITORS' REMUNERATION**

The auditors' remuneration for the period amounted to HK$30,000.

**5. DIRECTORS' REMUNERATION**

None of the directors received any fees or emoluments in respect of their services rendered to the Company during the period from 17 December 2010 (date of incorporation) to 31 March 2012.

**6. FINANCE COSTS**

| | HK$ |
|---|---|
| Interest on bank borrowings | 77,600 |

**7. INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

A reconciliation of the tax expense applicable to profit before tax using the Hong Kong statutory rate of 16.5% to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | Period from 17 December 2010 (date of incorporation) to 31 March 2012 HK$ % | % |
|---|---|---|
| Profit before tax | 1,025,476 | |
| Tax at the statutory tax rate | 169,203 | 16.5 |
| Tax charge at the effective tax rate | 169,203 | 16.5 |

There was no unprovided deferred tax in respect of the period and as at the end of the reporting period.

**8. TRADE RECEIVABLES**

The Company's trading terms with its customers are mainly on credit. The credit period is generally one month. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

The aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | HK$ |
|---|---|
| Neither past due nor impaired | 6,434,206 |
| Less than one month past due | 304,597 |
| | 6,738,803 |

Receivables that were neither past due nor impaired relate to a few customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to an independent customer that has had a good track record with the Company. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in credit quality and the balance is still considered fully recoverable.

At 31 March 2012, the Company had transferred certain bills of exchange amounting to HK$2,320,837 to banks with recourse in exchange for cash. The proceeds from transferring the bills receivable of HK$2,303,755 have been accounted for as collateralised bank advances and will be included in interest bearing bank borrowings until the bills are collected or the Company makes good of any losses incurred by the banks (note 9).

**9. INTEREST-BEARING BANK BORROWINGS**

| | HK$ |
|---|---|
| Secured: Collateralised bank advances | 2,303,755 |

The collateralised bank advances are all denominated in British Pound Sterling ("GBP"). The contractual interest rate of these collateralised bank advances is the London Interbank Offered Rate plus 3.5% and with maturity in April 2012.

**10. SHARE CAPITAL**

| | HK$ |
|---|---|
| Authorised: | |
| 10,000 ordinary shares of US$1 each | 77,800 |
| Issued and fully paid: | |
| 10,000 ordinary shares of US$1 each | 77,800 |

On incorporation, the Company's authorised share capital was US$10,000 divided into 10,000 ordinary shares of US$1 each and 10,000 ordinary shares were issued at par for cash as the subscriber's shares.

**11. RELATED PARTY TRANSACTIONS**

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

(i) The Company paid management fees of HK$58,350 in respect of the provision of corporate management services by an intermediate holding company during the period from 17 December 2010 (date of incorporation) to 31 March 2012. The management fees paid were determined based on terms mutually agreed between the Company and the intermediate holding company.

(ii) The balances with an intermediate holding company and the immediate holding company are unsecured, interest-free and have no fixed terms of repayment.

**12. FAIR VALUE**

At the end of the reporting period, the carrying amounts of the Company's financial assets and financial liabilities approximated to their fair values.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. The fair values of trade receivables, bank balances, trade payables, an accrual, amounts due to an intermediate holding company and the immediate holding company, and interest bearing bank borrowings approximated to their carrying amounts largely due to the short term maturities of these instruments.

The Company did not have any financial assets and liabilities measured at fair value as at the end of the reporting period.

**13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's exposure to interest rate risk, foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

*Interest rate risk*

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short term debt obligations with floating interest rates. The Company mitigates the risk by monitoring closely the movements in interest rates and reviewing its banking facilities regularly. The Company currently does not use any interest rate swap to hedge its exposure to interest rate risk and will continue to monitor if such need arises.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings) and the Company's equity.

| | Increase/ (decrease)in basis points | Increase/ (decrease) in profit before tax HK.$ | Increase/ (decrease) in equity HK.$ |
|---|---|---|---|
| 31 March 2012 | | | |
| GBP | 50 | (116,042) | (116,042) |
| GBP | (50) | 116,042 | 116,042 |

*Foreign currency risk*

The Company has transactional currency exposures. Such exposures mainly arise from sales or purchases in currencies other than the functional currency of the Company. The Company manages its foreign currency risk by monitoring closely the movements in exchange rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the GBP exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) in GBP exchange rate | Increase/ (decrease) in profit before tax HK.$ | Increase/ (decrease) in equity HK.$ |
|---|---|---|---|
| 31 March 2012 | | | |
| IfHK.$ weakens against GBP | 10 | 80,742 | 80,742 |
| If HK.$ strengthens against GBP | (10) | (80,742) | (80,742) |

*Credit risk*

The carrying amounts of bank balances and trade receivables, represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's bank balances are deposited with creditworthy banks with no recent history of default. The Company has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers.

The maximum exposure for trade receivables is the carrying amount as disclosed in note 8 to the financial statements. The directors consider that the Company does not have a significant concentration of credit risk.

*Liquidity risk*

In the management of liquidity risk, the Company monitors and maintains a level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from group companies.

The Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, either have no fixed terms of repayment or are repayable within three months subsequent to the end of the reporting period.

*Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to its shareholder, return capital to the shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the period from 17 December 2010 (date of incorporation) to 31 March 2012.

**14. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

## Directors' Report

The directors present their first report and the audited financial statements of the Company for the period from17 December 2010 (date of incorporation) to 31 March 2012.

**Principal activity**

The principal activity of the Company was the trading of garments.

**Results**

The Company's loss for the period from 17 December 2010 (date of incorporation) to 31 March 2012 and its state of affairs at 31 March 2012 are set out in the financial statements on pages 5 to 20.

**Property, plant and equipment**

Details of movements in the property, plant and equipment of the Company during the period are set out in note 8 to the financial statements.

**Directors**

The directors ofthe Company during the period were:

Deepak Kumar Seth (appointed on 17 December 2010)

Pallak Seth (appointed on 17 December 2010)

In accordance with article 7 of the Company's articles of association, both directors will retire and, being eligible, will offer themselves for re-election.

**Directors' interests**

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 of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**Directors' interests in contracts**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies or fellow subsidiaries was a party during the period.

**Auditors**

Ernst & Young were appointed by the directors as the Company's first 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**

Sd/-
Chairman

18 May 2012

## Independent auditors' report

### To the shareholder of Spring Near East Manufacturing Company Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Spring Near East Manufacturing Company Limited set out on pages 5 to 20, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 17 December 2010 (date of incorporation) to 31 March 2012, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view ofthe state of affairs ofthe Company as at 31 March 2012, and of its loss and cash flows for the period from 17 December 2010 (date of incorporation) to 31 March 2012 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Certified Public Accountants
Hong Kong

18 May 2012

## STATEMENT OF COMPREHENSIVE INCOME

Period from 17 December 2010 (date of incorporation) to 31 March 2012

| | Note | HK$ |
|---|---|---|
| REVENUE | 4 | 26,510,500 |
| Cost of sales | | (24,464,011) |
| Gross profit | | 2,046,489 |
| Other income | 4 | 291,789 |
| Administrative expenses | | (9,493,159) |
| LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | | ( 7,154,881) |

## STATEMENT OF FINANCIAL POSITION

31 March 2012

| | Notes | HK$ |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 8 | 1,233,541 |
| CURRENT ASSETS | | |
| Trade receivables | 9 | 14,786,988 |
| Deposits and other receivables | | 870,123 |
| Bank balances | | 713,873 |
| Total current assets | | 16,370,984 |
| CURRENT LIABILITIES | | |
| Trade payables | | 13,770,410 |
| Accrual | | 30,000 |
| Due to an intermediate holding company | 12(ii) | 58,350 |
| Due to the immediate holding company | 12(ii) | 8,693,237 |
| Due to a fellow subsidiary | 12(ii) | 2,129,609 |
| Total current liabilities | | 24,681,606 |
| NET CURRENT LIABILITIES | | (8,310,622) |
| Net liabilities | | (7,077,081) |
| EQUITY | | |
| Issued capital | 10 | 77,800 |
| Accumulated losses | | (7,154,881) |
| Net deficiency in assets | | (7,077,081) |

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY

Period from 17 December 2010 (date of incorporation) to 31 March 2012

| | NOTE | Issued capital HK$ | Accumulated losses HK$ | Net deficiency in assets HK$ |
|---|---|---|---|---|
| Issue of shares on incorporation | 10 | 77,800 | – | 77,800 |
| Total comprehensive loss for the year | | – | (7,154,881) | (7,154,881) |
| At 31 March 2012 | | 77,800 | (7,154,881) | (7,077,081) |

## STATEMENT OF CASH FLOWS

Period from 17 December 2010 (date of incorporation) to 31 March 2012

| | Note | HK$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss for the period | | (7,154,881) |
| Adjustments for: | | |
| Interest income | 4 | (45) |
| Depreciation | 5 | 328,392 |
| | | ( 6,826,534) |
| Increase in trade receivables | | ( 14,786,988) |
| Increase in deposits and other receivables | | ( 870,123) |
| Increase in trade payables | | 13,770,410 |
| Increase in an accrual | | 30,000 |
| Increase in an amount due to an intermediate holding company | | 58,350 |
| Increase in an amount due to the immediate holding company | | 8,693,237 |
| Increase in an amount due to a fellow subsidiary | | 2,129,609 |
| Cash generated from operations | | 2,197,961 |
| Interest received | | 45 |
| Net cash flows from operating activities | | 2,198,006 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of items of property, plant and equipment | | (1,561,933) |
| CASH FLOW FROM A FINANCING ACTIVITY | | |
| Proceeds from issuance of shares | | 77,800 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT END OF PERIOD | | 713,873 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances | | 713,873 |

## NOTES TO FINANCIAL STATEMENTS

**31 March 2012**

### 1. CORPORATE INFORMATION

Spring Near East Manufacturing Company Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 7/F., Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

During the period, the Company was engaged in the trading of garments.

The Company is a wholly-owned subsidiary of Norwest Industries Limited, a company incorporated in Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on the National Stock Exchange in India.

### 2.1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements are presented in Hong Kong dollars ("HK$") and have been prepared under the historical cost convention.

### 2.2. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the period ended 31 March 2012, in these financial statements. The Company is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person
   - (i) has control or joint control over the Company;
   - (ii) has significant influence over the Company; or
   - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:
   - (i) the entity and the Company are members of the same group;
   - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
   - (iii) the entity and the Company are joint ventures of the same third party;
   - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
   - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
   - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Furniture and fixtures | 25% |
| Office equipment | $33\frac{1}{3}$% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

<u>Cash and cash equivalents</u>

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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 Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, which are not restricted as to use.

<u>Operating leases</u>

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

<u>Financial instruments</u>

*Financial assets*

The Company's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of the reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Company's financial liabilities are classified and accounted for as financial liabilities at amortised cost. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

<u>Provisions</u>

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

<u>Income tax</u>

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

<u>Revenue recognition</u>

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method.

<u>Employee benefits</u>

*Retirement benefit costs*

The Company operates a mandatory provident fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

<u>Foreign currency transactions</u>

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the dates when their fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss).

3. FINANCIAL SUPPORT

The ultimate holding company of the Company has confirmed its intention to provide continuing financial support to the Company, directly or through other group companies, so as to enable the Company to meet its liabilities as and when they fall due and to enable the Company to continue operating for the foreseeable future. Accordingly, the directors have prepared the financial statements on a going concern basis.

4. REVENUE AND OTHER INCOME

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold. An analysis of other income is as follows:

| | HK$ |
|---|---|
| Bank interest income | 45 |
| Foreign exchange gain | 291,744 |
| | 291,789 |

5. LOSS FOR THE PERIOD

The Company's loss for the period is arrived at after charging:

| | HK$ |
|---|---|
| Auditors' remuneration | 30,000 |
| Depreciation | 328,392 |
| Staff costs (excluding directors' remuneration (note 6)): | |
| Salaries and allowances | 3,907,021 |
| Pension scheme contributions (defined contribution scheme) | 563,275 |
| | 4,470,296 |
| Minimum lease payments under operating leases of land and buildings | 764,118 |

6. DIRECTORS' REMUNERATION

None of the directors received any fees or emoluments in respect of their services rendered to the Company during the period from 17 December 2010 (date of incorporation) to 31 March 2012.

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits in Hong Kong during the period.

A reconciliation of the tax credit applicable to loss for the period at the Hong Kong statutory rate of 16.5% to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, is as follows:

| | Period from 17 December 2010 (date of incorporation) to 31 March 2012 HK$ | % |
|---|---|---|
| Loss for the period | (7,154,881) | |
| Tax at the statutory tax rate | (1,180,555) | 16.5 |
| Expense not deductible for tax | 12,157 | (0.2) |
| Tax losses not recognised | 1,168,398 | (16.3) |
| Tax at the effective tax rate | – | – |

As at the end of the reporting period, the Company had unused tax losses arising in Hong Kong of HK$7,388,543, subject to the agreement of the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the Company.

At the end of the reporting period, deferred tax assets in respect of the unused tax losses have only been recognised to the extent to offset the deferred tax liabilities associated with chargeable temporary differences as the directors consider it uncertain that future taxable profits will be available to utilise all the unused tax losses. The deferred tax assets not recognised are analysed as follows:

| | 2012 HK$ |
|---|---|
| Unused tax losses | 1,219,109 |
| Depreciation allowance in excess of depreciation | (50,711) |
| | 1,168,398 |

8. PROPERTY, PLANT AND EQUIPMENT

| | Furniture and fixtures HK$ | Office equipment HK$ | Total HK$ |
|---|---|---|---|
| **31 March 2012** | | | |
| At 17 December 2010 (date of incorporation) | – | – | – |
| Additions | 869,862 | 692,071 | 1,561,933 |
| Depreciation provided during the period | (203,645) | (124,747) | (328,392) |
| At 31 March 2012, net of accumulated depreciation | 666,217 | 567,324 | 1,233,541 |
| At 31 March 2012: | | | |
| Cost | 869,862 | 692,071 | 1,561,933 |
| Accumulated depreciation | (203,645) | (124,747) | (328,392) |
| Net carrying amount | 666,217 | 567,324 | 1,233,541 |

9. TRADE RECEIVABLES

The Company's trading terms with its customers are mainly on credit. The credit period is generally 30 days, extending up to 90 days for major customers. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

The aged analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

| | HK$ |
|---|---|
| Neither past due nor impaired | 14,775,400 |
| Less than one month past due | 11,588 |
| | 14,786,988 |

Receivables that were neither past due nor impaired relate to a few customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to an independent customer that has had a good track record with the Company. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of this balance as there has not been a significant change in credit quality and the balance is still considered fully recoverable.

10. SHARE CAPITAL

| | HK$ |
|---|---|
| Authorised: | |
| 10,000 ordinary shares of US$1 each | 77,800 |
| Issued and fully paid: | |
| 10,000 ordinary shares of US$1 each | 77,800 |

On incorporation, the Company's authorised share capital was US$ 10,000 divided into 10,000 ordinary shares of US$1 each and 10,000 ordinary shares were issued at par for cash as the subscriber's shares.

11. OPERATING LEASE ARRANGEMENTS

The Company leases its office premise under an operating lease arrangement. Lease for the property is negotiated for a term of two years.

At the end of the reporting period, the Company had total future minimum lease payments under a non cancellable operating lease amounting to HK$698,544 falling due within one year.

12. RELATED PARTY TRANSACTIONS

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

(i) The Company paid management fees of HK$58,350 in respect of the provision of corporate management services by an intermediate holding company during the period from 17 December 2010 (date of incorporation) to 31 March 2012. The management fees paid were determined based on terms mutually agreed between the Company and the intermediate holding company.

(ii) The balances with an intermediate holding company, the immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

13. FAIR VALUE

At the end of the reporting period, the carrying amounts of the Company's financial assets and financial liabilities approximated to their fair values.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. The fair values of trade receivables, deposits and other receivables, bank balances, trade payables, an accrual and amounts due to an intermediate holding company, the immediate holding company and a fellow subsidiary approximated to their carrying amounts largely due to the short term maturities of these instruments.

The Company did not have any financial assets and liabilities measured at fair value as at the end of the reporting period.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's exposure to foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

*Foreign currency risk*

The Company has transactional currency exposures. Such exposures mainly arise from sales or purchases in currencies (mainly British Pound Sterling ("GBP")) other than the functional currency of the Company. The Company manages its foreign currency risk by monitoring closely the movements in exchange rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the GBP exchange rate, with all other variables held constant, of the Company's loss for the period (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) in GBP exchange rate % | Increase/ (decrease) in loss for the period HK$ | Increase/ (decrease) in equity HK$ |
|---|---|---|---|
| 31 March 2012 | | | |
| If HK$ weakens against GBP | 10 | 153,700 | 153,700 |
| If HK$ strengthens against GBP | (10) | (153,700) | (153,700) |

Credit risk

The carrying amounts of bank balances, trade receivables and deposits and other receivables represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's bank balances are deposited with creditworthy banks with no recent history of default. The Company has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. The maximum exposure for trade receivables is the carrying amount as disclosed in note 9 to the financial statements. The directors consider that the Company does not have a significant concentration of credit risk.

*Liquidity risk*

In the management of liquidity risk, the Company monitors and maintains a level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from group companies.

The Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, either have no fixed terms of repayment or are repayable within three months subsequent to the end of the reporting period.

*Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to its shareholder, return capital to the shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the period from 17 December 20 10 (date of incorporation) to 31 March 2012.

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

# THE DIRECTORS' REPORT

## YEAR ENDED 31 MARCH 2012

The directors present their report and the financial statements of the company for the year ended 31 March 2012.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the company during the year was that of interior and architectural design.

On 31st December 2011 Multinational Textile Group Limited acquired 100% share capital of Casa Forma Limited. Multinational Textile Group Limited is a 100% subsidiary of Pearl Group Industries Limited, a listed company incorporated in India.

This financial year was a very challenging year for the company; the loss for the year, after taxation, amounted to £285,684. In the last quarter of the financial year, the new owners of the company brought in a new management and design team and this has had a positive effect on the business.

During the last quarter the company has secured new projects both within the UK and internationally, which will help to cover the majority of the budgeted revenue for the next financial year. The directors anticipate maintaining the gross profit margins and continue improving the turnover, operating results and cash flows.

In addition, the immediate and ultimate parent undertakings have both confirmed to provide their ongoing support for meeting any shortfalls in the working capital and assist with any cash requirements of the business, during this period of growth.

**RESULTS AND DIVIDENDS**

The loss for the year amounted to £285,684 (2011 profit: £137,197). The directors have not recommended a dividend.

**FINANCIAL INSTRUMENTS**

Details of the company's financial risk management objectives and policies are included in note 10 to the accounts.

**Directors**

The directors who served the company during the year were as follows:

Mr. P. Seth

Mr. L. Esposito

Ms. F. Seth

Mr. A. Banaik

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company.

Mr. A. Banaik was appointed as a director on 24 November 2011.

Mr. L. Esposito resigned as a director on 16 December 2011.

Ms. F. Seth resigned as a director on 19 December 2011.

**AUDITOR**

Kajaine Limited is appointed under section487(2) of the Companies Act 2006.

Registered office:
14 Stanhope Mews West
London
SW7 5RB

Sd/-
Mr. A. Banaik
Director

Approved by the directors on 15.05.2012

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

## YEAR ENDED 31 MARCH 2012

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they present fairly the position of the Company and the financial performance and cash flows of the Company for that period.

In preparing those financial statements, the directors are required to;

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.
- the Company financial statements which have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit/(loss) of the Company.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CASA FORMA LIMITED

## YEAR ENDED 31 MARCH 2012

We have audited the financial statements of Casa Forma Limited for the year ended 31 March 2012 which comprise of the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by directors; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made: or
- we have not received all the information and explanations we require for our audit.

Sd/-

**Amanjit Singh (Senior Statutory Auditor)**
For and on behalf of Kajaine Limited
Chartered Accountants & Statutory Auditor
Kajaine House, 57-67 High Street, Edgware, Middlesex, HA8 7DD
15th May, 2012

## STATEMENT OF COMPREHENSIVE INCOME

**YEAR ENDED 31 MARCH 2012**

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| **REVENUE** | | **954,266** | 816,034 |
| Cost of sales | | **200,377** | 123,186 |
| **GROSS PROFIT** | | **753,889** | 692,848 |
| Administrative expenses | | **1,039,573** | 555,651 |
| **(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | **(285,684)** | 137,197 |
| Income tax on (loss)/profit on ordinary activities | | **–** | – |
| **(LOSS)/PROFIT FOR THE FINANCIAL YEAR** | | **(285,684)** | 137,197 |

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

## STATEMENT OF FINANCIAL POSITION

31 MARCH 2012

| | Note | 2012 £ | 2012 £ | 2011 £ | 2011 £ |
|---|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | | |
| Property, Plant and Equipment | **4** | | **39,040** | | 29,140 |
| **CURRENT ASSETS** | | | | | |
| Inventories | **5** | **47,861** | | – | |
| Trade and other receivables | **6** | **296,125** | | 629,396 | |
| Cash and cash equivalents | | **6,498** | | 13,707 | |
| | | **350,484** | | 643,103 | |
| **TOTAL ASSETS** | | | **389,524** | | 672,243 |
| **EQUITY AND LIABILITIES** | | | | | |
| Ordinary share capital | **10** | | **250,000** | | 250,000 |
| Retained Earnings | **11** | | **(543,396)** | | (257,712) |
| **TOTAL EQUITY** | **12** | | **(293,396)** | | (7,712) |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | **7** | **682,920** | | 679,955 | |
| **TOTAL CURRENT LIABILITIES** | | | **682,920** | | |
| **TOTAL EQUITY AND LIABILITIES** | | | **389,524** | | 672,243 |

These financial statements were approved by the directors and authorised for issue on .......................• and are signed on their behalf by:

Sd/-

Mr. A. Banaik
Company Registration Number: 6060342

## CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2012

| | Note | 2012 £ | 2011 £ |
|---|---|---|---|
| Net cash inflow from operating activities | 13 | (135,166) | 16,807 |
| Net cash used in investing Activities | 13 | (22,043) | (13,553) |
| Net cash used in financing activities | 13 | 150,000 | - |
| Net decrease in cash and cash equivalents | 13 | (7,209) | 3,254 |
| Cash and cash equivalents at beginning of period | 13 | 13,707 | 10,453 |
| Cash and cash equivalents at end of period | 13 | 6,498 | 13,707 |

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2012

1. **ACCOUNTING POLICIES**

**Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of financial instruments. The Company financial statements have been prepared in accordance with IFRS.

**Revenue**

The revenue shown in the statement of comprehensive income represents amounts invoiced during the year, exclusive of Value Added Tax.

**Property, Plant and Equipment**

All property, plant and equipment are initially recorded at cost.

**Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value over the useful economic life of that asset as follows:

Fixtures & fittings - 20% per annum on reducing balance

Equipment - 25% per annum on reducing balance

**Inventories**

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

**Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

**Financial instruments**

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

**Fundamental accounting concept**

The accounts have been prepared on a going concern basis, as in the opinion of the directors, the ultimate parent company. Pearl Global Industries Limited (Formerly : House of Pearl Fashions Limited), shall continue to financially support the company in the foreseeable future to meet the liabilities as they fall due.

**2. PARTICULARS OF EMPLOYEES**

The average number of staff employed by the company during the financial year amounted to:

| | 2012 No | 2011 No |
|---|---|---|
| Number of administrative staff | 15 | 4 |
| Number of management staff | 3 | 2 |
| | 18 | 6 |

The aggregate payroll costs of the above were :

| | 2012 £ | 2011 £ |
|---|---|---|
| Wages and salaries | 501,717 | 290,562 |
| Social security costs | 56,570 | 32,867 |
| | 558,287 | 323,429 |

**3. DIRECTORS' REMUNERATION**

The directors' aggregate remuneration in respect of qualifying services were:

| | 2012 £ | 2011 £ |
|---|---|---|
| Remuneration receivable | 96,994 | 144,102 |

**4. PROPERTY, PLANT & EQUIPMENT**

| | Fixtures & Fittings £ | Equipment £ | Total £ |
|---|---|---|---|
| **COST** | | | |
| At 1 April 2011 | 24,344 | 39,967 | 64,311 |
| Additions | 2,486 | 19,557 | 22,043 |
| **At 31 March 2012** | 26,830 | 59,524 | 86,354 |
| **DEPRECIATION** | | | |
| At 1 April 2011 | 13,793 | 21,378 | 35,171 |
| Charge for the year | 2,607 | 9,536 | 12,143 |
| **At 31 March 2012** | 16,400 | 30,914 | 47,314 |
| **NET BOOK VALUE** | | | |
| **At 31 March 2012** | 10,430 | 28,610 | 39,040 |
| At 31 March 2011 | 10,551 | 18,589 | 29,140 |

**5. INVENTORIES**

| | 2012 £ | 2011 £ |
|---|---|---|
| Finished goods | 47,861 | – |

**6. TRADE AND OTHER RECEIVABLES**

| | 2012 £ | 2011 £ |
|---|---|---|
| Trade receivables | 259,225 | 471,894 |
| VAT recoverable | 246 | – |
| Other receivables | 24,669 | 157,502 |
| Prepayments and accrued income | 11,985 | – |
| | 296,125 | 629,396 |

**7. Trade and other Payables**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Trade payables | | 66,564 | | 250,072 |
| Amounts owed to parent undertakings | | 280,695 | | – |
| Amounts owed to fellow group undertakings | | 157,076 | | – |
| Other payables including taxation and social security: | | | | |
| PAYE and social security | 65,705 | | 43,606 | |
| VAT payable | – | | 79,270 | |
| Other payables | 25,224 | | 297,477 | |
| | | 90,929 | | 420,353 |
| Accruals and deferred income | | 87,656 | | 9,530 |
| | | 682,920 | | 679,955 |

**8. COMMITMENTS UNDER OPERATING LEASES**

At 31March 2012 the company had annual commitments under non-cancellable operating leases as set out below .

| | Land and buildings 2012 £ | 2011 £ |
|---|---|---|
| Operating leases which expire: | | |
| Within 1 year | 50,000 | – |

**9. RELATED PARTY TRANSACTIONS**

At the year end the company owed the following amounts to its fellow group undertakings:

- Poeticgem Limited - £152,789
- Pacific Logistics Limited - £4,287
- Multinational Textile Group Limited - £280,695

During the year the company had the following transactions with its fellow group undertakings:

- Sales to Poeticgem Limited of £3,500
- Purchases from Pacific Logistics Limited of £3,573.

The transactions above were in the normal course of business.

**10. SHARE CAPITAL**

**Authorised share capital:**

| | 2012 £ | 2011 £ |
|---|---|---|
| 1,000,000 Ordinary shares of £ 1 each | 1,000,000 | 1,000,000 |

| **Allotted, called up and fully paid:** | 2012 No. | 2012 £ | 2011 No. | 2011 £ |
|---|---|---|---|---|
| 250,000 Ordinary shares of £ 1 each | 250,000 | 250,000 | 250,000 | 250,000 |

## 11. RETAINED EARNINGS

| | 2012 £ | 2011 £ |
|---|---|---|
| Balance brought forward | **(257,712)** | (394,909) |
| (Loss)/Profit for the financial year | **(285,684)** | 137,197 |
| Balance carried forward | **(543,396)** | (257,712) |

## 12. STATEMENT OF CHANGES IN EQUITY

| | 2012 £ | 2011 £ |
|---|---|---|
| (Loss)/Profit for the financial year | **(285,684)** | 137,197 |
| Opening shareholders' deficit | **(7,712)** | (144,909) |
| Closing shareholders' deficit | **(293,396)** | (7,712) |

## 13. NOTES TO THE CASH FLOW STATEMENT

**RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

| | 2012 £ | 2011 £ |
|---|---|---|
| Operating (loss)/profit | **(285,684)** | 137,197 |
| Depreciation | **12,143** | 8,835 |
| Increase in stocks | **(47,861)** | – |
| Decrease/(increase) in debtors | **183,271** | (432,534) |
| Increase/(decrease) in creditors | **2,965** | 303,309 |
| Net cash (outflow)/ inflow from operating activities | **(135,166)** | 16,807 |

**PROPERTY PLANT AND EQUIPMENT**

| | 2012 £ | 2011 £ |
|---|---|---|
| Payments to acquire property, plant and equipment | **(22,043)** | (13,553) |
| Net cash used in investing activities | **(22,043)** | (13,553) |

**FINANCING ACTIVITIES**

| | 2012 £ | 2011 £ |
|---|---|---|
| Proceeds from issue of share capital (previously unpaid) | **150,000** | – |
| Net cash inflow from financing activities | **150,000** | – |

**CASH AND CASH EQUIVALENTS**

| | 2012 £ | 2011 £ |
|---|---|---|
| Cash on hand and balances with banks | **6,498** | 13,707 |
| Change in net funds | **6,498** | 13,707 |

## 14. ULTIMATE PARENT COMPANY

The immediate parent undertaking is Multinational Textile Group Limited, a company incorporated in Mauritius.

The ultimate parent undertaking is Pearl Global Industries Limited (Formerly: House of Pearl Fashions Limited), a company incorporated in India.

The smallest and the largest group for which consolidated financial statements are publicly available, is that group headed by the ultimate parent undertaking, Pearl Global Industries Limited (Formerly: House of Pearl Fashions Limited). Copies of these accounts can be obtained from House of Pearl Fashions Limited, A-3 Community centre, Naraina Industrial Area, Phase 2, New Delhi - 110028.

There is no one controlling party.

## Directors' Report

The directors are pleased to present their report together with the audited financial statements of SACB Holdings Limited (the "Company") for the year ended 31 March 2012.

**Principal activity**

The principal activity of the Company is that of investment holding.

**Results and dividends**

The results for the year ended are shown on page 6.

The directors do not recommend the payment of a dividend for the year under review (2011: NIL).

**Statement of Directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial period giving a true and fair view of the state of affairs of the Company and of the profit or loss of the Company. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern on the year ahead.

**By order of the Board**

**Sd/-**
**Director** **Date: 25 MAY 2012**

## SACB Holdings Limited

## Certificate from the Secretary

*for the year ended 31 March 2012*

**Secretary's certificate under Section 166 (d) of the Companies Act 2001**

In accordance with section 166 (d) of the Companies Act 2001, we certify that to the best of our knowledge and belief, the Company has filed with the Registrar of Companies, all such returns as are required of the Company under the Companies Act 2001.

Sd/-

For and on behalf of KROSS BORDER CORPORATE SERVICES LIMITED
Company secretary
Date: 25 May 2012

## Auditors' report to the shareholders of SACB Holdings Limited

**Report on the Financial Statements**

We have audited the financial statements of SACB Holdings Limited, which comprise the statement of financial position at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and statement cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's shareholders, as a body, in accordance with section 205 of the Mauritius Companies Act 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act 2001, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements on pages 6 to 24 give a true and fair view of the financial position of the Company at 31 March 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Mauritius Companies Act 2001.

**Report on Other legal and Regulatory Requirements**

***Companies Act 2001***

We have no relationship with or interests in the Company other than in our capacity as auditors.

We have obtained all the information and explanations we have required.

In our opinion, proper accounting records have been kept by the company as far as it appears from our examination of those records.

Sd/-
**Lancasters**
Chartered Accountants
14, Lancaster Court
Lavoquer street
Port Louis
Mauritius
Date: 25 May 2012

## STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 31 March 2012*

| | Note | 2012 USD | 2011 USD |
|---|---|---|---|
| Revenue | 7 | – | – |
| Expenses | | (13,295) | (8,940) |
| **Loss before taxation** | | **(13,295)** | (8,940) |
| Taxation | 8 | – | – |
| **Loss for the year** | | **(13,295)** | (8,940) |
| Other comprehensive income | | – | – |
| **Total Comprehensive Loss For The Year** | | **(13,295)** | (8,940) |

## STATEMENT OF FINANCIAL POSITION

*at 31 March 2012*

| | Note | 2012 USD | 2011 USD |
|---|---|---|---|
| **Assets** | | | |
| Investments | 9 | 800,069 | 800,069 |
| **Total non-current assets** | | **800,069** | 800,069 |
| **Current assets** | | | |
| Receivables | 10 | 75,941 | 75,941 |
| Other receivables | 11 | 4,469 | 563 |
| Cash and cash equivalents | | 1,360 | 2,710 |
| **Total current assets** | | **81,770** | 79,214 |
| **Total assets** | | **881,839** | 879,283 |
| **Equity** | | | |
| Stated capital | 12 | 50,000 | 50,000 |
| Revenue reserve | | (14,224) | (929) |
| **Total capital and reserves** | | **35,776** | 49,071 |
| **Liabilities** | | | |
| Loan from holding company | 13 | 420,059 | 414,754 |
| Loan from related party | 14 | 398,488 | 398,488 |
| **Total non-current liabilities** | | **818,547** | 813,242 |
| **Current liabilities** | | | |
| Other payables | 15 | 27,516 | 16,970 |
| **Total liabilities** | | **846,063** | 830,212 |
| **Total equity and liabilities** | | **881,839** | 879,283 |

Approved by the Board on 25 MAY 2012 .

Sd/-
Director

Sd/-
Director

## STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 March 2012*

| | Stated capital USD | Revenue reserve USD | Total USD |
|---|---|---|---|
| Balance at 01 April 2010 | 50,000 | 8,011 | 58,011 |
| **Total comprehensive loss for the year** | | | |
| Loss for the year | – | (8,940) | (8,940) |
| Balance at 31 March 2011 | 50,000 | (929) | 49,071 |
| **Total comprehensive loss for the year** | | | |
| Loss for the year | – | (13,295) | (13,295) |
| **Balance at 31 March 2012** | **50,000** | **(14,224)** | **35,776** |

## STATEMENT OF CASH FLOWS

*for the year ended 31 March 2012*

| | 2012 USD | 2011 USD |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the year | (13,295) | (8,940) |
| Change in receivables | – | 2,050 |
| Change in other receivables | (3,906) | (188) |
| Change in other payables | 10,546 | 1,306 |
| **Net cash used in operating activities** | **(6,655)** | (5,772) |
| **Cash flows from investing activities** | | |
| Acquisition of investments | – | (800,069) |
| **Net cash used in investing activities** | – | (800,069) |
| **Cash flows from financing activities** | | |
| Loan received from holding company | 5,305 | 411,451 |
| Transfer of investment | – | 2 |
| Loan received from related party/shareholder | – | 395,316 |
| **Net cash from financing activities** | **5,305** | 806,769 |
| Net movement in cash and cash equivalents | (1,350) | 928 |
| Cash and cash equivalents at beginning of year | 2,710 | 1,782 |
| **Cash and cash equivalents at end of year** | **1,360** | 2,710 |

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

*for the year ended 31 March 2012*

**1. General information**

The Company was incorporated as a private limited company on 29 March 2006 and was granted a Category 1 Global Business Licence on 31 March 2006. The principal activity of the Company is the holding of investments.

The Company, as a holder of a Category 1 Global Business Licence under the Companies Act and Financial Services Act 2007 is required to carry on its business in a currency other than the Mauritian rupee. Since the Company operates in an international environment and conducts most of its transactions in foreign currencies the Company has chosen to retain the United States Dollar (USD) as its reporting currency.

**2. Basis of preparation**

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements.

(a) *Statement of compliance*

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS").

(b) *Basis of measurement*

The financial statements have been prepared on a historical cost basis, except that financial assets and financial liabilities are carried at fair value.

(c) *Functional and presentation currency*

The financial statements are presented in United States Dollar (USD) which is the company's functional currency.

(d) *Use of estimates and judgement*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There were no critical judgements made in applying accounting policies that may have significant effect on the amount recognised in the financial statements.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) *Revenue recognition*

Revenue is recognised in the statement of comprehensive income as follows:

Interest income - as it accrues, using the effective interest method.

(b) *Taxation*

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in the statement of comprehensive income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(c) *Foreign currency transactions*

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to United States Dollar (USD) at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional at the exchange rate at the date the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Foreign exchange differences arising on retranslation are recognised in the statement of comprehensive income.

(d) *Impairment of assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Impairment in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis.

All impairment is recognised in the statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the statement of comprehensive income.

An impairment is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortised cost and available for- sale financial assets that are debt securities, the reversal is recognised directly in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(e) *Non-derivative financial assets*

Financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company classifies its financial assets in the following categories : at fair value through profit and loss, loans and receivables, held to maturity investments and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Cash and cash equivalents*

Cash and cash equivalents comprises cash at bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

*Receivables and other receivables*

Receivable and other receivables are stated at cost less impairment. Financial assets under receivables that are classified as held to maturity are measured at amortised cost using the effective interest method less any impairment.

*Investments in associates*

Investments in associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are shown at cost and provision is only made where, in opinion of the directors, there is a diminution in value which is other than temporary. Where there has been such a diminution in value of an investment, it is recognised as an expense in the year in which the diminution is identified.

(f) *Non-derivative financial liabilities*

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loan from holding company, loan from related party and other payables.

*Other payables*

Other payables are stated at cost.

*Loan from holding company*

Loan from holding company is stated at cost.

*Loan from related party*

Loan from holding company is stated at cost.

(g) *Stated capital*

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(h) *Related parties*

Related parties may be individuals or other entities where the individual or other entities has the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in governing the financial and operating policies, or vice versa, or where the Company are subject to common control of common significant influence.

(i) *Expenses*

All expenses are recognised in the statement of comprehensive income on an accrual basis.

(j) *Provisions*

A provision is recognised if, as a result of a past event, the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**Newly effective standards, interpretations and amendments to standards and interpretations**

The newly effective standards, interpretations and amendments to standards and interpretations (collectively referred to as standards or requirements) are grouped into three parts.

***Part I*** Standards that are required to be applied in annual and interim periods ended on 31 March 2012.

***Part II*** Standards that are required to be applied in interim periods ended on 31 March 2012. However, these standards are not required to be applied in annual periods ended 31 March 2012, but can be early adopted unless otherwise indicated. Additional disclosures are required when a standard is early adopted.

***Part III*** Standards that are not required yet to be applied in either interim or annual periods, but that can be early adopted. Additional disclosures are required when such a standard is early adopted.

The following is a summary of all of the newly effective standards, interpretations and amendments by effective date.

| Standards, amendments and interpretation | Effective date |
|---|---|
| ***PART I*** | |
| Classification of rights issues (amendment to IAS 32) | 01 February 2010 |
| IFRIC 19 Extinguishing financial liabilities with equity instruments | 01 July 2010 |
| Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1) | 01 July 2010 |
| Improvements to IFRSs 2010 - various standards | 01 July 2010 |
| ***PART II*** | |
| IAS 24 Related party disclosures (revised 2009): | 01 January 2011 |
| Prepayments of a minimum funding requirement (amendments to IFRIC 14) | 01 January 2011 |
| Improvements to IFRSs 2010 - various standards | 01 January 2011 |
| Disclosures - Transfers of financial assets (amendments to IFRS 7) | 01 July 2011 |
| Severe hyperinflation and removal of fixed dates for first-time adopters (amendments to IFRS 1) | 01 July 2011 |
| ***PART III*** | |
| Deferred tax: recovery of underlying assets (amendments to IAS 12) | 01 January 2012 |
| Presentation of items of other comprehensive income (amendments to IAS 1) | 01 July 2012 |
| IFRS 9 Financial instruments | 01 January 2015 |
| IFRS 10 Consolidated financial statements | 01 January 2013 |
| IFRS 11 Joint arrangements | o1 January 2013 |
| IFRS 12 Disclosure of interests in other entities | 01 January 2013 |
| IFRS 13 Fair value measurement | 01 January 2013 |
| IAS 19 Employee benefits (amended 2011) | 01 January 2013 |
| IAS 27 Separate financial statements (2011) | 01 January 2013 |
| IAS 28 Investments in associates and joint ventures (2011) | 01 January 2013 |
| IFRIC 20 Stripping costs in the production phase of a surface mine | 01 January 2013 |

**4. Determination of fair values**

The Company accounting policies and disclosures requires the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Other receivables*

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

*Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**5. Financial risk management**

*Introduction and preview*

Financial instruments carried on the statement of financial position include cash and cash equivalents, other receivables, loan from shareholder and other payables. The recognition method adopted is disclosed in the individual policy statement associated with each item. The most important types of risk are market risk, credit risk and liquidity risk.

The Company's activities expose them to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

The Company's aims are therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews their risk management policies and systems to reflect changes in markets and emerging best practice.

*Market risk*

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Company's income or the fair value of its holdings of financial instruments.

*(i.)* *Interest rate risk*

The Company is not significantly exposed to interest rate risk. The income and operating cash flows are substantially independent of changes in market interest rates. The Company's only significant interest-bearing financial asset is cash and cash equivalents which are on a call account.

*(ii.)* *Currency risk*

All of the Company's financial liabilities are denominated in United States Dollar. Consequently, the Company is not exposed to the risk of foreign currency exchange rates.

*(iii.)* *Price risk*

The Company is not exposed to commodity price risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet contractual obligations, and arises from the Company's cash and cash equivalents.

The Company also limits its exposure to credit risk by dealing only with counterparties that has a good credit rating and management does not expect counterparty to fail to meet its obligations.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking damage to the Company's reputation.

**6. Capital management**

The Company actively and regularly reviews and manages its capital position to maintain a balance between its liability and equity level.

The management of the Company's capital position is undertaken by the management team of the Company. The management team ensures that the Company is adequately capitalised to meet economic and regulatory requirements. Capital injections and repatriations are executed in a timely fashion, working closely with the business and infrastructure groups. The management team meets on a regular basis and manages capital by taking into account key considerations which may include business developments, regulatory requirements, profitability and market movements such as foreign exchange and interest rate.

**7. Revenue**

No revenue was generated for the year under review.

**8. Taxation**

*Income tax*

The Company is subject to income tax in Mauritius at the rate of 15%. It is however, entitled to a tax credit equivalent to the higher of the foreign tax paid and 80% of the Mauritian tax on its foreign source income.

*Deferred tax*

A deferred tax asset has not been recognised in respect of the tax losses carried forward as the directors consider that it is not probable that future taxable profit will be available against which the unused tax losses can be utilised. Tax losses can be carried forward up to a maximum of five years. The tax loss for 2011 will expire in 2016 (for 2010 will expire in 2015).

*Recognised in the statement of comprehensive income*

| | 2012 USD | 2011 USD |
|---|---|---|
| Current year income tax | – | – |
| *Reconciliation of effective tax* | | |
| Loss before taxation | (13,295) | (8,940) |
| Income tax at 15% | (1,994) | (1,341) |
| Foreign tax credit | 1,595 | 1,073 |
| Deferred tax asset not recognised | 399 | 268 |
| Income tax payable | – | – |

**9. Investments**

Investments consist of unquoted shares

| | 2012 USD | 2011 USD |
|---|---|---|
| Cost | | |
| At 01 April | 800,069 | 2 |
| Transfer of investment to SSB Trust | – | (2) |
| Acquisition of investment in GWD Enterprise | – | 800,069 |
| | 800,069 | 800,069 |

| Name of company | Type of shares | Number of shares | % held | Country of incorporation |
|---|---|---|---|---|
| GWD Enterprise. | Equity | 100 A shares and 25 B shares | 25 | United Kingdom |

**10. Receivables**

| | 2012 USD | 2011 USD |
|---|---|---|
| Unsecured, interest free loan with no fixed repayment terms | 75,941 | 75,941 |

**11. Other receivables**

| | 2012 USD | 2011 USD |
|---|---|---|
| Prepaid expenses | 4,469 | 563 |

**12. Stated capital**

| | 2012 USD | 2011 USD |
|---|---|---|
| 50,000 ordinary shares of USD 1 each | 50,000 | 50,000 |

All shares in issue are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

**13. Loan from holding company**

| | 2012 USD | 2011 USD |
|---|---|---|
| Unsecured, interest free loan with no fixed repayment terms | 420,059 | 414,754 |

**14. Loan from related party**

| | 2012 USD | 2011 USD |
|---|---|---|
| Unsecured, interest free loan with no fixed repayment terms | 398,488 | 398,488 |

**15. Other payables**

| | 2012 USD | 2011 USD |
|---|---|---|
| Non-trade payables and accrued expenses | 25,866 | 15,320 |
| Loan from Transnational Textiles Group | 1,650 | 1,650 |
| | 27,516 | 16,970 |

**16. Related party transactions**

During the year under review, the Company entered into the following related party transactions.

| | | 2012 USD | 2011 USD |
|---|---|---|---|
| Transactions during the year: | *Nature* | | |
| Loan from related party | *Loan received* | – | 395,316 |
| Loan from holding company | *Loan received* | 5,305 | 411,451 |
| Repayment of loan by related party | *Amount received* | – | 2,050 |
| *Balances outstanding at 31 March:* | | | |
| Loan from related party | *Loan payable* | 398,488 | 398,488 |
| Loan from holding company | *Loan payable* | 420,059 | 414,754 |
| Loan to related party | *Loan receivable* | 75,941 | 75,941 |
| Loan from Transnational Textiles Group | *Loan receivable* | 1,650 | 1,650 |

**Compensation to key management personnel**

The company did not pay any compensation to its key management personnel during the year. (2011: nil).

**17. Financial instruments**

**Fair values versus carrying amounts**

The fair values of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

| | Carrying amount 2012 USD | Fair value 2012 USD | Carrying amount 2011 USD | Fair value 2011 USD |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Receivables | 75,941 | 75,941 | 75,941 | 75,941 |
| Cash and cash equivalents | 1,360 | 1,360 | 2,710 | 2,710 |
| **Total financial assets** | 77,301 | 77,301 | 78,651 | 78,651 |
| **Financial Liabilities** | | | | |
| Loan from holding company | 420,059 | 420,059 | 414,754 | 414,754 |
| Loan from related party | 398,488 | 398,488 | 398,488 | 398,488 |
| Other payables | 27,516 | 27,516 | 16,970 | 16,970 |
| **Total financial liabilities** | 846,063 | 846,063 | 830,212 | 830,212 |

*Overview*

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Interest rate risk
- Credit risk
- Liquidity risk

*Market risk*

Market risk represents the potential loss that can be caused by a change in the market value of financial instruments. The Company's exposure to market risk is determined by a number of factors, including interest rates, foreign currency exchange rates and market volatility. The Company conducts its investment operations in a manner that seeks to exploit the potential gains in the market, while limiting its exposure to market declines.

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company has no significant exposure to interest rate risk other than relating to its bank balances.

*Credit risk*

Credit risk represents the potential loss that the Company would incur if counterparties fail to perform pursuant to the terms of their obligations to the Company. The Company limits its credit risk by carrying out transactions through companies within the group. At the statement of financial position date, there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit risk at the reporting date was:

| | ***Carrying Amount*** | |
|---|---|---|
| | **2012 USD** | 2011 USD |
| Other receivables | **75,941** | 75,941 |
| Cash and cash equivalents | **1,360** | 2,710 |
| | **77,301** | 78,651 |

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they become due without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the company's contractual maturities of financial liabilities:

| | **Within One year USD** | **One to five years USD** | **Total USD** |
|---|---|---|---|
| ***Year ended March 2012*** | | | |
| **Financial liabilities** | | | |
| Loan from holding company | **–** | **420,059** | **420,059** |
| Loan from related party | **–** | **398,488** | **398,488** |
| Other payables | **27,516** | **–** | **27,516** |
| **Total financial liabilities** | **27,516** | **818,547** | **846,063** |
| ***Year ended March 2011*** | | | |
| **Financial liabilities** | | | |
| Loan from holding company | – | 414,754 | 414,754 |
| Loan from related party | – | 398,488 | 398,488 |
| Other payables | 16,970 | – | 16,970 |
| **Total financial liabilities** | 16,970 | 813,242 | 830,212 |

**18. Exemption from preparing consolidated financial statements**

The Company is a subsidiary of Multinational Textile Group Limited and has taken advantage of paragraph 13 of International Accounting Standards (IAS 28) - 'Investment in Associates', which dispenses it from the need to prepare equity accounting in relation to its investment in associate. Multinational Textile Group Limited will prepare consolidated accounts. The registered office of Multinational Textile Group Limited is St Louis Business Centre, Cnr Desroches & St Louis Streets, Port Louis, Mauritius.

## Statement of comprehensive income

for the year ended 31 March 2012

| | **2012 USD** | 2011 USD |
|---|---|---|
| **Revenue** | **–** | – |
| **Expenses** | | |
| Accounting and audit fees | **6,280** | 3,000 |
| Administration charges | **2,665** | 2,298 |
| License fees | **1,750** | 1,750 |
| Telephone, fax and courier charges | **1,400** | 470 |
| Professional fees | **1,150** | 700 |
| Bank charges | **50** | 497 |
| Sundries | **–** | 225 |
| | **13,295** | 8,940 |
| **Loss before taxation** | **(13,295)** | (8,940) |

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended March 31, 2012, which were approved by them at the board meeting held on the date of this report.

**PRINCIPAL ACTIVITY**

The principal activity of the Company is garment trading.

**FINANCIAL RESULTS**

The results of the Company for the year ended March 31, 2012 and the state of affairs of the Company at that date are set out in the annexed financial statements.

**DIVIDEND**

The directors do not recommend payment of any dividends.

**PLANT AND EQUIPMENT**

Movements in plant and equipment are set out in Note (11) to the financial statements.

**DIRECTORS**

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

Sandeep Malhotra
Pallak Seth
Faiza Habeeb Seth

In accordance with Article 7 of the Company's Articles of Association, the directors retire and, being eligible, offer themselves for re-election.

**DIRECTORS' INTEREST**

Except for the related party transactions as disclosed in Note (21) to the financial statements, no contracts of significance to which the Company, any of its holding company or fellow subsidiaries was a party and in which a director had a material interest subsisted at the end of the year or at any time during the year. At no time during the year was the Company, any of its holding company or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

**AUDITORS**

The Company's auditors, Messrs. Louis Lai & Luk, retire and, being eligible, offer themselves for re-appointment.

By Order of the Board
Sd/-
Chairman
Hong Kong, May 17, 2012.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SIMPLE APPROACH LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Simple Approach Limited ("the Company") set out on pages 5 to 26, which comprise the statement of financial position as at March 31, 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at March 31, 2012 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Louis Lai & Luk
Certified Public Accountants
Hong Kong, May 17, 2012.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31,2012

| | NOTES | **2012 HK$** | 2011 HK$ |
|---|---|---|---|
| Turnover | (6) | **332,554,840** | 263,934,582 |
| Cost of sales | | **(272,423,174)** | (218,213,462) |
| Gross profit | | **60,131,666** | 45,721,120 |
| Other revenue | (6) | **4,679,925** | 4,082,355 |
| Selling and distribution costs | | **(19,662,513)** | (11,478,491) |
| Depreciation expenses | | **(77,919)** | (66,647) |
| Staff costs | | **(18,719,724)** | (18,775,324) |
| Other operating expenses | | **(13,314,630)** | (10,431,151) |
| Profit from operations | | **13,036,805** | 9,051,862 |
| Finance costs | (7) | **(4,055,255)** | (3,111,664) |
| Profit before taxation | (8) | **8,981,550** | 5,940,198 |
| Taxation | (10) | **–** | – |
| Profit for the year | | **8,981,550** | 5,940,198 |
| Other comprehensive income | | **–** | – |
| Total comprehensive income for the year | | **8,981,550** | 5,940,198 |

## STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2012

| | NOTES | **2012 HK$** | 2011 HK$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | (11) | **190,272** | 124,878 |
| **Current Assets** | | | |
| Deposits and prepayment | | **241,600** | 180,724 |
| Trade and other receivables | (12) | **98,205,284** | 63,686,297 |
| Amounts due from fellow subsidiaries | (13) | **31,885,362** | 8,682,404 |
| Amount due from a director | (14) | **5,134,107** | 5,050,237 |
| Cash and bank balances | | **11,192,052** | 14,135,849 |
| | | **146,658,405** | 91,735,511 |
| **Current Liabilities** | | | |
| Amount due to ultimate holding company | (15) | **–** | 418,506 |
| Amount due to immediate holding company | (15) | **–** | 338,897 |
| Amounts due to fellow subsidiaries | (15) | **6,302,932** | 2,941,660 |
| Trade and other payables | (16) | **26,125,490** | 20,229,636 |
| Secured bank borrowings | (17) | **94,060,089** | 56,553,074 |
| | | **126,488,511** | 80,481,773 |
| Net Current Assets | | **20,169,894** | 11,253,738 |
| **NET ASSETS** | | **20,360,166** | 11,378,616 |

| | NOTES | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| Represented by: | | | |
| **CAPITAL AND RESERVES** | | | |
| Share capital | (18) | **26,763,200** | 26,763,200 |
| Accumulated losses | | **(6,403,034)** | (15,384,584) |
| **SHAREHOLDERS' EQUITY** | | **20,360,166** | 11,378,616 |

Approved by the board of directors on May 17,2012 and signed on behalf of the board by:

Sd/- Director

Sd/- Director

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED MARCH 31, 2012

| | Share Capital HK$ | Accumulated Losses HK$ | Total HK$ |
|---|---|---|---|
| At April 1, 2010 | 26,763,200 | (21,324,782) | 5,438,418 |
| Total comprehensive income for the year | – | 5,940,198 | 5,940,198 |
| At March 31, 2011 | 26,763,200 | (15,384,584) | 11,378,616 |
| Total comprehensive income for the year | – | 8,981,550 | 8,981,550 |
| At March 31, 2012 | 26,763,200 | (6,403,034) | 20,360,166 |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2012

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before taxation | **8,981,550** | 5,940,198 |
| Adjustments for: | | |
| Depreciation | **77,919** | 66,647 |
| Bank interest expenses | **1,894,751** | 869,026 |
| Bank interest income | **(60,198)** | (13,152) |
| **OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES** | **10,894,022** | 6,862,719 |
| (Increase)/Decrease in deposits and prepayment | **(60,876)** | 68,553 |
| (Increase)/Decrease in trade and other receivables | **(34,518,987)** | 5,936,503 |
| Net payment to fellow subsidiaries | **(19,841,686)** | (23,042,388) |
| Net (payment to)/receipt from a director | **(83,870)** | 198,594 |
| Net payment to ultimate holding company | **(418,506)** | (207,296) |
| Net (payment to)/receipt from immediate holding company | **(338,897)** | 133,505 |
| Increase/(Decrease) in trade and other payables | **5,895,854** | (10,020,737) |
| **NET CASH USED IN OPERATIONS** | **(38,472,946)** | (20,070,547) |
| Bank interest received | **60,198** | 13,152 |
| Bank Interest paid | **(1,894,751)** | (869,026) |
| Net cash used in operating activities | **(40,307,499)** | (20,926,421) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of plant and equipment and net cash used in investing activities | **(143,313)** | (130,551) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net receipt from discounted bills loan | **14,068,243** | **11,061,434** |
| Net receipt from trust receipts loan | **23,736,116** | 11,442,630 |
| Net (payment to)/receipt from term loan | **(1,344,384)** | 6,021,720 |
| Net receipt from/(payment to) factoring loan | **1,047,040** | (2,005,343) |
| Net cash generated from financing activities | **37,507,015** | 26,520,441 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **(2,943,797)** | 5,463,469 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **14,135,849** | 8,672,380 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **11,192,052** | 14,135,849 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL

Simple Approach Limited was incorporated in Hong Kong as a limited liability company. Its principal activity is garment trading. The address of its registered office is 7/F., Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong. The directors consider that the ultimate holding company is Pearl Global Industries Limited (formerly known as "House of Pearl Fashions Limited"), a company incorporated in India. The shares of the ultimate holding company is listed on the Bombay Stock Exchange and National Stock Exchange in India.

### 2. PRINCIPAL ACCOUNTING POLICIES

**a. Basis of Preparation**

The financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS(s)") (which also include Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("Int(s)") issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note (5) to the financial statements

In 2012, the Company adopted the new and revised HKFRSs below, which are relevant to its operations.

- HKFRSs (Amendments) — Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28
- HKFRS 1 (Amendments) — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
- HKAS 24 (Revised) — Related Party Disclosures
- HK(IFRIC) - Int 14 (Amendments) — Prepayments of a Minimum Funding Requirement
- HK(IFRIC) - Int 19 — Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above HKFRSs has had no material impact on the principal accounting policies of the Company and the methods of computation in the Company's financial statements. As such, no 2011 comparatives have been amended as a result from adopting the captioned HKFRSs.

**b. Impact of issued but not yet effective HKFRSs**

The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

- HKFRS 1 (Amendments) — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (1)
- HKFRS 7 (Amendments) — Disclosures - Transfers of Financial Assets (1)
- HKFRS 7 (Amendments) — Disclosures - Offsetting Financial Assets and Financial Liabilities (4)
- HKFRS 9 — Financial Instruments (6)
- HKFRS 10 — Consolidated Financial Statements (4)
- HKFRS 11 — Joint Arrangements (4)
- HKFRS 12 — Disclosure of Interests in Other Entities (4)
- HKFRS 13 — Fair Value Measurement (4)
- HKAS 1 (Amendments) — Presentation of Items of Other Comprehensive Income (3)
- HKAS 12 (Amendments) — Deferred Tax: Recovery of Underlying Assets (2)
- HKAS 19 (2011) — Employee Benefits (4)
- HKAS 27 (2011) — Separate Financial Statements (4)

- HKAS 28 (2011) — Investments in Associates and Joint Ventures [4]
- HKAS 32 (Amendments) — Offsetting Financial Assets and Financial Liabilities [5]
- HK(IFRIC) - Int 20 — Stripping Costs in the Production Phase of a Surface Mine [4]

Notes:

(1) Effective for annual periods beginning on or after 1 July 2011

(2) Effective for annual periods beginning on or after 1 January 2012

(3) Effective for annual periods beginning on or after 1 July 2012

(4) Effective for annual periods beginning on or after 1 January 2013

(5) Effective for annual periods beginning on or after 1 January 2014

(6) Effective for annual periods beginning on or after 1 January 2015

The directors anticipate that all of the above new and revised standards, amendments or interpretations will be adopted in the Company's financial statements for the period commencing April 1, 2012 and that the adoption of those new and revised standards, amendments or interpretations will have no material impact on the financial statements of the Company.

**c. Plant and Equipment**

Plant and equipment are stated at cost less accumulated depreciation and aggregate identified impairment loss, if any.

Depreciation is provided at rates calculated to write off their cost on a straight line basis over the period of their estimated useful lives at the rate of 33 1/3% per annum.

When assets are sold or otherwise disposed of, their carrying amounts are written off from the financial statements and any gain or loss on the disposal is included in the Statement of Comprehensive Income.

The asset's residual value and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**d. Impairment of Assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**e. Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

**f. Financial Assets**

The Company's financial assets are only classified under loans and receivables category.

**g. Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are carried at amortized cost using effective interest method, less any identified impairment losses. An impairment loss is recognised in the Statement of Comprehensive Income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the assets recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**h. Financial Liabilities**

The Company's financial liabilities include account and other payables which are subsequently measured at amortized cost, using the effective interest method.

**i. Equity Instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's equity instrument represents its issued share capital and is recorded at the share subscription received/ receivable at the date of issuance of shares.

**j. Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months.

**k. Translation of Foreign Currency**

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Hong Kong Dollars ("HK$"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

**l. Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable loss for the year. Taxable loss differs from net loss as reported in the Statement of Comprehensive Income because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable loss, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable loss will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of specific assets and liabilities in a transaction that affects neither the tax loss nor the accounting loss.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the Statement of Comprehensive Income.

**m. Turnover**

Turnover represents invoiced amount of sales less discounts and returns.

**n. Recognition of Revenue**

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for services provided in the normal course of the Company's business. It is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the bases as follows:

- Revenue from sales of goods is recognised when the goods are delivered to buyer.
- Interest income from bank deposits is accrued on a time proportion basis on the principal outstanding and at the rate applicable.
- Other income is recognised on a receipt basis.

**o. Retirement Benefit Scheme**

The Company participates in Mandatory Provident Fund Scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme is held separately from those of the Company in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, each of the employer and employees are required to make contributions to the scheme at rates specified in the rules.

The MPF Scheme is a defined contribution plan and the Company is only obliged to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit costs arising from the MPF Scheme charged to the Statement of Comprehensive Income represent contribution payable to the funds by the Company in accordance with the rules of the scheme.

p. **Employee Benefits**

Employee benefits are all forms of considerations, including wages, salaries, allowances and contribution to retirement benefit scheme payable by the Company in exchange for services rendered by its employees and directors. The employee benefits are classified as staff costs and charged to the Statement of Comprehensive Income.

Provision on employees' entitlements to unconsumed annual leaves as of the end of reporting period are not provided in the financial statements as such leaves are not permitted to be carried forward and utilized by the respective employees in the following year. Sick leave and maternity leave are recognised until the time of leave as directors consider that no material liability would arise as a result of such entitlements in the near future.

q. **Borrowing Cost**

Interest and other borrowing costs incurred in connection with the borrowing of funds are recognised as expenses in the period in which they are incurred.

r. **Bank Borrowings**

Interest bearing bank loans and overdrafts are initially measured as fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs, if any) and the settlement or redemption of borrowings is recognised over the terms of borrowings in accordance with the Company's policy for borrowing cost as stated in the preceding note.

s. **Related Parties**

A related party is a person or entity that is related to the Company.

(A) A person or a close member of that person's family is related to the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or a parent of the Company.

(B) An entity is related to the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

t. **Financial Risks**

The financial risks in connection with the Company's financial instruments include risks as follows.

(i) Market risk includes three types of risk as below:

- Currency risk: the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Fair value interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.
- Price risk: the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Market risk embodies not only the potential for loss but also the potential for gain.

(ii) Credit risk: the risk that the corresponding party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss.

(iii) Liquidity risk (also referred to as funding risk): the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

(iv) Cash flow interest rate risk: the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## 3. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

(i) To safeguard the Company's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(ii) To support the Company's stability and growth; and

(iii) To provide capital for the purpose of strengthening the Company's risk management capability.

The Company actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Company. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

## 4. FINANCIAL RISK MANAGEMENT

The Company's financial risks are limited by the financial management policies and practices described below.

(a) Credit risk

The Company has no significant concentrations of credit risk because the creditworthiness of each of the Company's customers has been assessed before any goods are supplied to them on credit. The directors are not aware of any factor indicating that any debtors would not be capable of repaying their outstanding amounts. Accordingly, the directors are of the opinion that the Company is adequately protected from the credit risk.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. As at the end of reporting period, the Company keeps sufficient cash equivalents. Accordingly, the liquidity risk on difficult realization of cash equivalent is immaterial.

(c) Cash flow and fair value interest rate risk

The Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

## 5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimate of fair value of current assets and liabilities

The nominal value of current assets and liabilities are assumed to approximate their fair value.

## 6. RECOGNITION OF REVENUE

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Revenue recognized during the year are as follows: | | |
| Turnover: | | |
| Sale of goods | **332,554,840** | 263,934,582 |
| Other revenue: | | |
| Bank interest income | **60,198** | 13,152 |

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Commission received | – | 480,182 |
| Claim and recovery | 3,951,655 | 2,399,904 |
| Management fee received | 660,000 | 1,098,400 |
| Sundry income | 8,072 | 90,717 |
| | 4,679,925 | 4,082,355 |
| Total revenue recognized | 337,234,765 | 268,016,937 |

## 7. FINANCE COSTS

| | | |
|---|---|---|
| Bank interest paid | 1,894,751 | 869,026 |
| Bank finance charges | 2,160,504 | 2,242,638 |
| | 4,055,255 | 3,111,664 |

## 8. PROFIT BEFORE TAXATION

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Profit before taxation is stated after charging: | | |
| Auditors' remuneration | 68,000 | 68,000 |
| Depreciation | 77,919 | 66,647 |
| Exchange difference | 732,744 | 474,065 |
| Rental payment under operating leases - properties | 71,320 | 60,210 |
| Staff costs (including directors' remuneration) | | |
| – Salaries and allowance | 17,268,708 | 17,310,783 |
| – Contribution to retirement benefit scheme - MPF | 353,811 | 361,140 |
| – Director's quarter expenses | 1,060,560 | 962,080 |
| – Recruitment expenses | 36,645 | 141,321 |

## 9. DIRECTORS' REMUNERATION

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Fees | – | – |
| Other emoluments | 2,512,560 | 2,189,080 |
| | 2,512,560 | 2,189,080 |

## 10. TAXATION

No Hong Kong profits tax has been provided in the financial statements as the assessable profits for the current year have been wholly offset by taxation loss sustained in previous years.

At the end of reporting period, the Company has unused tax losses of HK$6,528,504 (2011: HK$15,459,327) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

The tax charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Profit before taxation | 8,981,550 | 5,940,198 |
| Tax at the domestic income tax rate of 16.5% | 1,481,956 | 980,133 |
| Tax effect of income that are not taxable in determining taxable profits | (236) | (722) |
| Net tax allowance claimed | (8,134) | (4,548) |
| Utilization of tax loss not previously recognised | (1,473,586) | (974,863) |
| Taxation expense for the year | – | – |

## 11. PLANT AND EQUIPMENT

| | Office Equipment HK$ | Furniture and Fixtures HK$ | Computer Equipment HK$ | Leasehold Improvement HK$ | Total HK$ |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1/4/2010 | 25,964 | 24,170 | 263,793 | – | 313,927 |
| Additions | 47,234 | – | 54,717 | 28,600 | 130,551 |
| At 31/3/2011 | 73,198 | 24,170 | 318,510 | 28,600 | 444,478 |
| Additions | 75,325 | – | 67,988 | – | 143,313 |
| At 31/3/2012 | 148,523 | 24,170 | 386,498 | 28,600 | 587,791 |
| **Aggregate Depreciation** | | | | | |
| At 1/4/2010 | 15,780 | 20,095 | 217,078 | – | 252,953 |
| Charge for the year | 9,145 | 4,075 | 43,895 | 9,532 | 66,647 |
| At 31/3/2011 | 24,925 | 24,170 | 260,973 | 9,532 | 319,600 |
| Charge for the year | 29,926 | – | 38,460 | 9,533 | 77,919 |
| At 31/3/2012 | 54,851 | 24,170 | 299,433 | 19,065 | 397,519 |
| **Net Book Value** | | | | | |
| At 31/3/2012 | 93,672 | – | 87,065 | 9,535 | 190,272 |
| At 31/3/2011 | 48,273 | – | 57,537 | 19,068 | 124,878 |

## 12. TRADE AND OTHER RECEIVABLES

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Trade receivables (Note (i)) | 96,684,125 | 60,561,398 |
| Other receivables | 1,521,159 | 3,124,899 |
| | 98,205,284 | 63,686,297 |

(i) Aging analysis of trade receivables is as follows:

| | | |
|---|---|---|
| Neither past due nor impaired | 85,471,594 | 56,594,111 |
| Past due but not impaired | 11,212,531 | 3,967,287 |
| | 96,684,125 | 60,561,398 |

Trade receivables are due within 90 days from date of billing.

## 13. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayments. No provisions for bad and doubtful debts have been recognised on the amounts due from these companies. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

## 14. AMOUNT DUE FROM A DIRECTOR

Disclosed pursuant to Section 161B of the Companies Ordinance:

| | Sandeep Malhotra HK$ |
|---|---|
| Balance at 1/4/2011 | 5,050,237 |
| Balance at 31/3/2012 | 5,134,107 |
| Maximum balance outstanding during the year | 5,134,107 |

Terms : No fixed term of repayments

Interest : Free

Security : Nil

**15. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY/IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES**

The amounts due to ultimate holding company/immediate holding company/fellow subsidiaries are unsecured, interest-free and repayable on demand. The ultimate holding company/immediate holding company/fellow subsidiaries agreed not to demand repayment of the amount due until the Company is financially capable of repayment. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

**16. TRADE AND OTHER PAYABLES**

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Trade payable (Note(i)) | **23,286,803** | 17,144,902 |
| Bills payable | **365,744** | 2,344,039 |
| Other payables and accruals | **2,472,943** | 740,695 |
| Total | **26,125,490** | 20,229,636 |

(i) Maturity of the trade payables is as follows:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Due for payment: | | |
| Not later than one year | **23,195,213** | 17,144,902 |
| Later than one year | **91,590** | – |
| | **23,286,803** | 17,144,902 |

**17. SECURED BANK BORROWINGS**

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Discounted bills loan | **47,953,777** | 33,885,534 |
| Trust receipts loan | **38,997,979** | 15,261,863 |
| Term loan | **4,677,336** | 6,021,720 |
| Factoring loan | **2,430,997** | 1,383,957 |
| | **94,060,089** | 56,553,074 |

**18. SHARE CAPITAL**

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Authorised | | |
| 3,190,000 9% redeemable preference shares of US$ 1 each | **24,818,200** | 24,818,200 |
| 500,000 ordinary shares of US$ 1 each | **3,890,000** | 3,890,000 |
| | **28,708,200** | 28,708,200 |
| Issued and fully paid-up: | | |
| 3,190,000 9% redeemable preference shares of US$ 1 each | **24,818,200** | 24,818,200 |
| 250,000 ordinary shares of US$ 1 each | **1,945,000** | 1,945,000 |
| | **26,763,200** | 26,763,200 |

**19. OPERATING LEASE COMMITMENTS**

(a) At the end of reporting period, the Company had outstanding commitments under its non-cancellable operating leases, which fall due as follows:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Within one year | **402,767** | 468,000 |
| In the second to fifth years inclusive | **158,841** | – |
| | **561,608** | 468,000 |

(b) Operating lease arrangements represent rental payable by the Company for its rented premises. Leases are negotiated for a term of two years.

**20. BANKING FACILITIES**

General banking facilities granted by a bank were secured by the Company's fixed deposit, fellow subsidiaries' corporate guarantee, ultimate holding and immediate holding companies' corporate guarantee, directors' personal guarantee, bank guarantee and fellow subsidiary's properties.

**21. RELATED PARTY TRANSACTIONS**

During normal course of business, the Company had the following material transactions with its related parties below.

| Name of Company | Relationship | Nature of transaction | 2012 HK$ | 2011 HK$ |
|---|---|---|---|---|
| Pearl Global Industries Ltd. (formerly known as "House of Pearl Fashions Ltd."), India | Ultimate holding company | Handling charges | **–** | 150,981 |
| | | Purchase of goods | **–** | 4,501,741 |
| | | SAP facilities charges | **101,140** | 75,855 |
| | | Amount due to | **–** | (418,507) |
| Global Textile Group Ltd. | Fellow subsidiary | Consultancy fee | **404,257** | 1,042,520 |
| House of Pearl Fashions (US) Ltd., USA | Fellow subsidiary | Management fee | **–** | 1,025,311 |
| | | Amount due to | **–** | (427,228) |
| Multinational Textiles Group Ltd., Mauritius | Immediate holding company | Management fee | **1,431,831** | 451,862 |
| | | Amount due to | – | (338,897) |
| Norp Knit Industries Ltd., B'desh | Fellow subsidiary | Purchase of goods | **20,601,640** | 12,663,114 |
| | | Amount due (to)/from | **(1,266,612)** | 791,193 |
| Norwest Industries Ltd., Hong Kong | Fellow subsidiary | Inspection commission | **6,918,700** | 3,295,930 |
| | | Inspection fee | **41,499** | 244,945 |
| | | Handling charges | **–** | 144,328 |
| | | Management fee | **34,548** | 62,271 |
| | | Rental fee | **1,035,000** | 1,035,000 |
| | | Sampling expense | **894,918** | 739,878 |
| | | Amount due to | **(2,282,877)** | (738,263) |
| PG Group Ltd., Hong Kong | Fellow subsidiary | Purchase of goods | **7,605,320** | 3,064,253 |
| | | Management fee | **215,319** | 326,527 |
| | | Amount due to | **(1,076,103)** | – |
| Pearl Global Ltd., India | Fellow subsidiary | SAP facilities charges | **–** | 10,713 |
| | | Amount due from | **189,248** | 589,112 |
| Poeticgem Limited, Canada | Fellow subsidiary | Sales of goods | **49,808,871** | 13,099,487 |
| | | Amount due from | **31,696,114** | 7,302,099 |
| Poeticgem Limited, UK | Fellow subsidiary | Amount due to | **(1,677,340)** | (1,776,169) |
| Zamira Fashion Ltd., Hong Kong | Fellow subsidiary | Commission income | **–** | 480,182 |
| | | Inspection commission | **–** | 47,800 |
| | | Management fee income | **(112,000)** | (139,000) |

**22. CONTINGENT LIABILITIES**

(a) The Company had the following contingent liabilities not provided for in the financial statements at the end of reporting period:

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| Irrevocable letter of credit | **119,185,092** | 113,239,480 |
| Shipping guarantee | **806,436** | 740,031 |
| | **119,991,528** | 113,979,511 |

(b) At the end of reporting period, there were mutual guarantees between the Company and its fellow subsidiary.

**23. CURRENCY RISK**

(i) Exposure to currency risk.

The following table details the Company's exposure at the end of reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in Hong Kong Dollars, translated using the spot rate at the year end date.

| | | | **(Expressed in HKD) 2012** | | | |
|---|---|---|---|---|---|---|
| | **USD** | **GBP** | **EURO** | **RMB** | **BDT** | **CAD** |
| Trade and other receivables | **12,612,305** | **–** | **–** | **–** | **–** | **–** |
| Cash and cash equivalent | **1,361,565** | **78** | **911** | **–** | **2,589,338** | **21,197** |
| Trade and other payables | **(3,055,284)** | **–** | **–** | **(90,271)** | **(638,321)** | **–** |
| Bank borrowings | **(12,089,976)** | **–** | **–** | **–** | **–** | **–** |
| Net exposure arising from recognised assets and liabilities | **( 1,171,390)** | **78** | **911** | **(90,271)** | **1,951,017** | **21,197** |

| | | | (Expressed in HKD) 2011 | | | |
|---|---|---|---|---|---|---|
| | USD | GBP | EURO | RMB | BDT | CAD |
| Trade and other receivables | 7,784,241 | – | – | – | – | – |
| Cash and cash equivalent | 1,721,888 | 77 | 987 | – | 4,965,730 | – |
| Trade and other payables | (2,504,384) | – | – | (74,655) | – | – |
| Bank borrowings | (7,269,323) | – | – | – | – | – |
| Net exposure arising from recognised assets and liabilities | (267,578) | 77 | 987 | (74,655) | 4,965,730 | – |

(ii) Sensitivity analysis.

The following table indicates the approximate change in the Company's profit after tax in response to reasonably possible changes (e.g.±10%) in the foreign exchange rates to which the Company has significant exposure at the statement of financial position date.

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Increase HK$** | **Decrease HK$** | Increase HK$ | Decrease HK$ |
| United States Dollars | **–** | **–** | – | – |
| British Pound | **95** | **(95)** | 76 | (76) |
| Euro Dollars | **921** | **(921)** | 637 | (637) |
| Chinese Yuan | **(10,833)** | **10,833** | (7,238) | 7,238 |
| Bangladeshi Taka | **21,082** | **(21,082)** | 45,914 | (45,914) |
| Canadian Dollar | **16,491** | **(16,491)** | – | – |
| | **27,756** | **(27,756)** | 39,389 | (39,389) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to the Company's exposure to currency risk for the variables.

The stated changes represent Management's assessment of reasonably possible change in foreign exchange rates over the period until the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on Company's profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2011.

**24. INTEREST RATE RISK**

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Financial liabilities bearing variable interests: | | |
| Discounted bills loan | **47,953,777** | 33,885,534 |
| Trust receipts loan | **38,997,979** | 15,261,863 |
| Term loan | **4,677,336** | 6,021,720 |
| Factoring loan | **2,430,997** | 1,383,957 |
| | **94,060,089** | 56,553,074 |

Should market interest rate on March 31 increase by 10%, the profit or loss for the year would be reduced by a net amount of HK$338,613 (2011: HK$259,824). The carrying amounts of financial assets and financial liabilities measured at amortised cost and the carrying amount of financial liabilities bearing variable interest measure at fair value would not be affected by the assumed 10% increase in interest rates.

**25. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved and authorised for issue by the Company's Board of Director on May 17, 2012.

NOR DELHI MANUFACTURING LIMITED
(Formerly Magic Global Fashions Limited)

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2012

The sole director presents his first report and the audited financial statements of the Company for the period from 19 January 2009 (date of incorporation) to 31 March 2010 and the years ended 31 March 2011 and 31 March 2012.

**Change of name**

Pursuant to a resolution of the shareholder on 23 January 2009, the name of the Company was changed from Magic Global Fashions Limited to Nor Delhi Manufacturing Limited.

**Principal activity**

The principal activity of the Company was the trading of garments.

**Results and dividends**

The Company's results for the period from 19 January 2009 to 31 March 2010 and the years ended 31 March 2011 and 31 March 2012, and the state of affairs at 31 March 2010, 2011 and 2012, are set out in the financial statements on pages 4 to 21.

The sole director does not recommend the payment of any dividend in respect of all of the period and years.

**Director**

The sole director of the Company during all of the period and years was Pallak Seth.

There being no provision in the Company's articles of association for the retirement of the sole director who will continue in office for the ensuing year.

**Directors' interests**

At no time during all of the period and years were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to the sole director or his spouses or minor children, or were any such rights exercised by them; or was the Company, its subsidiary or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the sole director to acquire such rights in any other body corporate.

**Directors' interests in contracts**

The sole director had no material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company, its subsidiary or any of its holding companies or fellow subsidiaries was a party during all of the period and years.

**Auditors**

Ernst & Young were appointed by the sole director as the Company's first auditors. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

Sd/-
Sole Director
Hong Kong

18 May2012

## Independent auditors' report

To the shareholder of Nor Delhi Manufacturing Limited (formerly Magic Global Fashions Limited)

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Nor Delhi Manufacturing Limited (formerly Magic Global Fashions Limited) set out on pages 4 to 21, which comprise the statements of financial position as at 31 March 2010, 2011 and 31 March 2012, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the period from 19 January 2009 (date of incorporation) to 31 March 2010 and the years ended 31 March 20II and 31 March 2012, and a summary of significant accounting policies and other explanatory information.

**Director's responsibility for the financial statements**

The sole director of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the sole director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2010, 31 March 2011 and 31 March 2012, and of its results and cash flows for the period from 19 January 2009 (date of incorporation) to 31 March 2010 and the years ended 31 March 2011 and 31 March 2012, in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Certified Public Accountants
Hong Kong

18 May 2012

## STATEMENTS OF COMPREHENSIVE INCOME

Period from 19 January 2009 (date of incorporation) to 31 March 2010 and years ended 31 March 2011 and 31 March 2012

| | Notes | **Year ended 31 March 2012 HK$** | Year ended 31 March 2011 HK$ | Period from 19 January 2009 (date of incorporation to 31 March 2010 HK$ |
|---|---|---|---|---|
| **REVENUE** | 4 | **19,688,475** | – | 165,176 |
| Cost of sales | | **(17,502,989)** | – | (149,953) |
| Gross profit | | **2,185,486** | – | 15,223 |
| Other income | 4 | **233,476** | – | – |
| Administrative expenses | | **(588,102)** | (5,983) | (70,032) |
| Other operating expenses | | **(1,273,397)** | – | – |
| **PROFIT/(LOSS) BEFORE TAX** | | **5 557,463** | (5,983) | (54,809) |
| Income tax expense | 7 | **(268,087)** | – | – |
| **PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD/YEAR** | | **289,376** | (5,983) | (54,809) |

## STATEMENT OF FINANCIAL POSITION

31 March 2010, 2011 and 2012

| | Notes | **2012 HK$** | 2011 HK$ | 2010 HK$ |
|---|---|---|---|---|
| **NON-CURRENT ASSET** | | | | |
| Investment in a subsidiary | 8 | – | 1,167 | 1,167 |
| **CURRENT ASSETS** | | | | |
| Trade and bills receivables | 9 | **10,708,714** | – | 33,671 |
| Prepayment | | **622,400** | – | – |
| Due from the immediate holding company | 11(b) | **1,477,166** | 1,937,430 | 1,937,430 |
| Cash and cash equivalents | | **514,543** | 83,030 | 55,342 |
| Total current assets | | **13,322,823** | 2,020,460 | 2,026,443 |
| **CURRENT LIABILITIES** | | | | |
| Trade and bills payables | | **6,464,965** | – | – |
| Other payables and accruals | | **107,372** | 81,252 | 81,252 |
| Loan from the immediate holding company | 11(b) | **1,128,l00** | – | – |
| Due to a subsidiary | 8 | **–** | 1,167 | 1,167 |
| Due to a fellow subsidiary | 11(b) | **3,125,715** | – | – |

| | Notes | 2012 HK$ | 2011 HK$ | 2010 HK$ |
|---|---|---|---|---|
| Tax payable | | **268,087** | – | – |
| Total current liabilities | | **11,094,239** | 82,419 | 82,419 |
| **NET CURRENT ASSETS** | | **2,228,584** | 1,938,041 | 1,944,024 |
| Net assets | | **2,228,584** | 1,939,208 | 1,945,191 |
| **EQUITY** | | | | |
| Issued capital | 10 | **2,000,000** | 2,000,000 | 2,000,000 |
| Retained profits/(accumulated losses) | | **228,584** | (60,792) | (54,809) |
| Total equity | | **2,228,584** | 1,939,208 | 1,945,191 |

Sd/-
Sole Director

## STATEMENT OF CHANGES IN EQUITY

Period from 19 January 2009 (date of incorporation) to 31 March 2010, years ended 31 March 2011 and 31 March 2012

| | Note | Issued capital HK$ | Retained profits/ (accumulated HK$ | Total HK$ |
|---|---|---|---|---|
| Issue of shares on incorporation | 10 | 2,000,000 | – | 2,000,000 |
| Total comprehensive loss for the period | | – | (54,809) | (54,809) |
| At 31 March 2010 and at 1 April 2010 | | 2,000,000 | (54,809) | 1,945,191 |
| Total comprehensive loss for the year | | – | (5,983) | (5,983) |
| At 31 March 2011 and at 1 April 2011 | | 2,000,000 | (60,792) | 1,939,208 |
| Total comprehensive income for the year | | – | 289,376 | 289,376 |
| At 31 March 2012 | | 2,000,000 | 228,584 | 2,228,584 |

## STATEMENT OF CASH FLOWS

Period from 19 January 2009 (date of incorporation) to 31 March 2010, years ended 31 March 2011 and 31 March 2012

| | Notes | Year ended 31 March 2012 HK$ | Year ended 31 March 2011 HK$ | Period from 19 January 2009 (date of incorporation to 31 March 2010 HK$ |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit/(loss) before tax | | **557,463** | (5,983) | (54,809) |
| Adjustments for: | | | | |
| Impairment of an investment in a subsidiary | 5 | **1,167** | – | – |
| Loss on waiver of a loan to a subsidiary | 5 | **1,128,100** | – | – |
| Impairment of trade and bills receivables | 5 | **3,543** | – | 3,543 |
| Gain on waiver of an amount due to a subsidiary | 5 | **( 1,167)** | – | – |
| | | **1,685,563** | (5,983) | (51,266) |
| Decrease/(increase) in trade and bills receivables | | **(10,708,714)** | 33,671 | (37,214) |
| Increase in a prepayment | | **(622,400)** | – | – |
| Decrease/(increase) in an amount from the immediate holding company | | **460,264** | – | (1,937,430) |
| Increase in trade and bills payables | | **6,464,965** | – | – |
| Increase in other payables and accruals | | **26,120** | – | 81,252 |
| Increase in an amount due to a fellow subsidiary | | **3,125,715** | – | – |
| Cash generated from/(used in) operations/ net cash flows from/(used in) operating activities | | **431,513** | 27,688 | (1,944,658) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Loan to a subsidiary | | **(1,128,100)** | – | – |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issuance of shares | | **–** | – | 2,000,000 |
| Loan from the immediate holding company | | **1,128,100** | – | – |
| Net cash flows from financing activities | | **1,128,100** | – | 2,000,000 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **431,513** | 27,688 | 55,342 |
| Cash and cash equivalents at beginning of period/year | | **83,030** | 55,342 | – |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR** | | **514,543** | 83,030 | 55,342 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | | |
| Cash and bank balances | | **514,543** | 83,030 | 55,342 |

## NOTES TO FINANCIAL STATEMENTS

31 March 2010, 2011 and 2012

### 1. CORPORATE INFORMATION

Nor Delhi Manufacturing Limited (formerly Magic Global Fashions Limited) is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 7/F, Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong.

During the period/year, the Company was engaged in the trading of garments, Pursuant to a resolution of the shareholder on 23 January 2009, the name of the Company was changed from Magic Global Fashions Limited to Nor Delhi Manufacturing Limited.

The Company is a wholly-owned subsidiary of Multinational Textile Group Limited, a company incorporated in Mauritius. In the opinion of the director, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on The National Stock Exchange in India.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements are presented in Hong Kong dollars ("HK$") and have been prepared under the historical cost convention.

In accordance with paragraph 10 of HKAS 27 (Revised) *Consolidated and Separate Financial Statements,* consolidated financial statements have not been prepared as:

- the Company is itself a wholly-owned subsidiary;
- the Company's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or a local or regional over-the-counter market);
- the Company did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- the Company's ultimate holding company produces consolidated financial statements available for public use that comply with HKFRSs.

### 2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the year ended 31 March 2012, in these financial statements. The Company is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

NOR DELHI MANUFACTURING LIMITED
(Formerly Magic Global Fashions Limited)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The result of its subsidiary is included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity); .

(iii) the entity and the Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;

(vi the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Financial instruments

*Financial assets*

The Company's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Company will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Company's financial liabilities are classified and accounted for as financial liabilities at amortised cost. Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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 Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company 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 Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method.

Foreign currency transactions

These financial statements are presented in HK$, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the dates when their fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss).

**4. REVENUE AND OTHER INCOME**

Revenue, which is also the Company's turnover, represents the net invoiced value of goods sold.

Other income for the year ended 31 March 2012 represented compensations received from a supplier.

5. **PROFIT/(LOSS) BEFORE TAX**

The Company's profit/(loss) before tax is arrived at after charging/(crediting):

| | **Year ended 31 March 2012 HK$** | Year ended 31 March 2011 HK$ | Period from 19 January 2009 (date of incorporation to 31 March 2010 HK$ |
|---|---|---|---|
| Auditors' remuneration | **30,000** | – | – |
| Impairment of an investment in a subsidiary | **1,167** | – | – |
| Loss on waiver of a loan to a subsidiary | **1,128,100** | – | – |
| Impairment oftrade and bills receivables (Note 9) | **–** | – | 3,543 |
| Gain on waiver of an amount due to a subsidiary | **1,167)** | – | – |
| Foreign exchange differences, net | **145,297** | – | – |

6. **SOLE DIRECTOR'S REMUNERATION**

The sole director did not receive any fees or emoluments in respect of his services rendered to the Company during the period from 19 January 2009 (date of incorporation) to 31 March 2010 and the years ended 31 March 2011 and 31 March 2012.

7. **INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 March 2012. No provision for Hong Kong profits tax was made during the period from 19 January 2009 (date of incorporation) to 31 March 20 I0 and the year ended 31 March 2011 as the Company did not generate any assessable profits arising in Hong Kong in those period and year.

| | **Year ended 31 March 2012 HK$** | Year ended 31 March 2011 HK$ | Period from 19 January 2009 (date of incorporation to 31 March 2010 HK$ |
|---|---|---|---|
| Provision for the year/period | **268,087** | – | – |

A reconciliation of the tax expense applicable to profit/(loss) before tax at the Hong Kong statutory rate of 16.5% to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | **Year ended 31 March 2012 HK$** | Year ended 31 March 2011 HK$ | Period from 19 January 2009 (date of incorporation to 31 March 2010 HK$ |
|---|---|---|---|
| Profit/(loss) before tax | **557,463** | (5,983) | (54,809) |
| Tax at the statutory tax rate | **91,981** | (987) | (9,043) |
| Expenses not deductible for tax | **186,136** | – | – |
| Tax losses utilised from the prior year/period | **(10,030)** | – | – |
| Tax loss not recognised | **–** | 987 | 9,043 |
| Tax at the effective tax rate | **268,087** | – | – |

There was no unprovided deferred tax in respect of the year and as at the end of the reporting period (Year ended 31 March 2011 and period from 19 January 2009 (date of incorporation) to 31 March 2010: Nil).

8. **INVESTMENT IN A SUBSIDIARY**

| | **2012 HK$** | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| Unlisted shares, at cost | **1,167** | 1,167 | 1,167 |
| Less: Impairment | **( 1,167)** | – | – |
| | **–** | 1,167 | 1,167 |
| Amount due to a subsidiary | **–** | 1,167 | 1,167 |

As at 31 December 2011, a full impairment was recognised for the Company's cost of investment in the unlisted shares of a subsidiary of HK$1,167. Such provision for impairment was made as the subsidiary had insufficient assets and future profitability to support recovery by the Company.

The amount due to the subsidiary as at 31 March 2011 and 31 March 2010 was unsecured, interest-free and fully waived by the subsidiary during the year ended 31 March 2012.

Particulars of the subsidiary as at 31 March 2010, 2011 and 2012 are as follows:

| **Name** | **Place of incorporation/ and operations** | **Nominal value of issued ordinary share capital** | **Percentage of equity attributable directly to the Company** | | | **Principal activities** |
|---|---|---|---|---|---|---|
| | | | **31 March 2012** | **31 March 2011** | **31 March 2010** | |
| Magic Global Fashions Limited | United Kingdom | British Pound Sterling ("GBP") 100 | 100 | 100 | 100 | Import and distribution of denim clothing |

The subsidiary was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The net loss for the period from 19 January 2009 (date of incorporation) to 31 March 2010, the net loss for the year ended 31 March 2011 and the net profit for the year ended 31 March 2012 attributable to the Company not dealt with in the financial statements of the Company amounted to HK$361,761, HK$718,087 and HK$1,112,757, respectively. The net accumulated losses as at 31 March 2010, the net accumulated losses as at 31 March 2011 and the retained profit as at 31 March 2012 of the subsidiary attributable to the Company not dealt with in the financial statements amounted to HK$361,761, HK$l,079,847 and HK$32,910, respectively.

9. **TRADE AND BILLS RECEIVABLES**

| | **2012 HK$** | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| Trade receivables | **6,944,447** | – | 37,214 |
| Bills receivable | **3,764,267** | – | – |
| Less: Impairment | **–** | – | (3,543) |
| | **10,708,714** | – | 33,671 |

The Company's trading terms with its customers are mainly on credit. The credit period is generally one month. The Company seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or credit enhancements over its trade receivable balances. fs are non-interest-bearing.

Movements in provision for impairment of trade and bills receivables are as follows:

| | **2012 HK$** | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| At 19 January 2009 (date of incorporation)/ 1 January | **–** | – | – |
| Impairment losses recognised (note 5) | **–** | – | 3,543 |
| Amount written off | **–** | – | (3,543) |
| At 31 December | **–** | – | – |

No individual trade and bills receivable balance was determined to be impaired during the current year (2011: Nil; 2010: HK$3,543). The individually impaired trade and bills receivable balance as at 31 March 2010 was related to a customer that was in default or delinquency in principal payments. The Company does not hold any collateral or other credit enhancements over its receivable balances.

The aged analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

| | **2012 HK$** | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| Neither past due nor impaired | **3,662,282** | – | – |
| Past due but not impaired: | | | |
| Less than 30 days | **7,046,432** | – | – |
| Between 31 and 90 days | **–** | – | – |
| Over 90 days | **–** | – | 33,671 |
| | **10,708,714** | – | 33,671 |

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a customer that has a good track record with the Company. Based on past experience, the sole director of the Company is of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

**10. SHARE CAPITAL**

| | 2012 HK$ | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| Authorised, issued and fully paid: | | | |
| 2,000,000 ordinary shares of HK$1 each | **2,000,000** | 2,000,000 | 2,000,000 |

On incorporation, the Company's authorised share capital was HK$2,000,000 divided into 2,000,000 ordinary shares of HK$1 each and 2,000,000 ordinary shares were issued at par for cash as the subscriber's shares.

**11. RELATED PARTY TRANSACTIONS**

(a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the year:

| | Notes | Year ended 31 March 2012 HK$ | Year ended 31 March 2011 HK$ | Period from 19 January 2009 (date of incorporation to 31 March 2010 HK$ |
|---|---|---|---|---|
| Immediate holding company: | | | | |
| Management fees paid | (i) | **460,265** | – | – |
| A fellow subsidiary: | | | | |
| Purchases of goods | (ii) | **608,802** | – | – |

Notes:

(i) The management fees paid were for the provision of corporate administrative services and were agreed mutually between the Company and the immediate holding company.

(ii) The purchases were made according to the prices and conditions agreed between the Company and a fellow subsidiary.

(b) Outstanding balances with related parties:

The balances with the immediate holding company and a fellow subsidiary are unsecured, interest-free and have no fixed terms of repayment.

The loan from the immediate holding company is unsecured, interest-free and repayable within two years.

**12. FAIR VALUE OF FINANCIAL INSTRUMENTS**

At the end of each reporting period, the carrying amounts of the Company's financial assets and financial liabilities approximated to their fair values.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. The fair values of trade and bills receivables, an amount due from the immediate holding company, cash and cash equivalents, trade and bills payables, other payables and accruals, and an amount due to a fellow subsidiary approximated to their carrying amounts largely due to the short term maturities of these instruments.

The Company did not have any financial assets and liabilities measured at fair value as at the end of each reporting period.

**13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's exposure to foreign currency risk, credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

*Foreign currency risk*

The Company has transactional currency exposures. Such exposures arise from sales or purchases by the Company in currencies (mainly GBP and Euro) other than the Company's functional currency. The Company mitigates the risk of foreign currency exposure by contracting with customers and suppliers primarily in the Company's functional currency, whenever possible.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible changes in the GBP and Euro exchange rates, with all other variables held constant, of the Company's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

| | Change in exchange rate % | Decrease/ (increase) in profit before tax HK$ |
|---|---|---|
| **31 March 2012** | | |
| **If HK$ weakens against GBP** | **10.0** | **159,955** |
| **If HK$ strengthens against GBP** | **(10.0)** | **(159,955)** |
| **If HK$ weakens against Euro** | **10.0** | **47,402** |
| **If HK$ strengthens against Euro** | **(10.0)** | **(47,402)** |

| | Change in exchange rate | Decrease/ (increase) in loss before tax |
|---|---|---|
| 31 March 2011 | | |
| If HK$ weakens against GBP | 10.0 | (187) |
| If HK$ strengthens against GBP | (10.0) | 187 |
| 31 March 2010 | | |
| If HK$ weakens against Euro | 10.0 | (177) |
| If HK$ strengthens against Euro | (10.0) | (177 |

*Credit risk*

The carrying amounts of trade and bills receivables, cash and cash equivalents and an amount due from the immediate holding company represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's cash and cash equivalents are deposited with creditworthy banks with no recent history of default. The Company has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. The maximum exposure for trade and bills receivables is the carrying amount as disclosed in note 9 to the financial statements.

*Liquidity risk*

In the management of liquidity risk, the Company monitors and maintains level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from its group companies.

The Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, either have no fixed terms of repayment or are repayable within three months subsequent to the end of each reporting period.

*Capital management*

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholder's value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to its shareholder, return capital to the shareholder or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 31 March 2011 and the period from 19 January 2009 (date of incorporation) to 31 March 2010.

**14. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the sole director on 18 May 2012.

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended March 31, 2012, which were approved by them at the board meeting held on the date of this report.

**PRINCIPAL ACTIVITY**

The principal activity of the Company is trading of garment. The principal activity of subsidiary is set out in Note (14) to the financial statements.

**FINANCIAL RESULTS**

The results of the Group for the year ended March 31, 2012 and the state of affairs of the Group and the Company at that date are set out in the annexed financial statements.

**DIVIDEND**

The directors do not recommend any payments of dividend for the year.

**PLANT AND EQUIPMENT**

Movements in plant and equipment are set out in Note (12) to the financial statements.

**DIRECTORS**

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

Deepak Kumar Seth

Thomas Mueller

Pallak Seth

In accordance with Article 7 of the Company's Article of Association, all the directors retire and , being eligible, offer themselves for re-election.

**DIRECTORS' INTEREST**

Except for the related party transactions as disclosed in Note (24) to the financial statements, no contracts of significance to which the Company, any of its holding companies, its subsidiary or its fellow subsidiaries was a party and in which the director had a material interest subsisted at the end of the year or at any time during the year. At no time during the year was the Company, any of its holding companies, its subsidiary or its fellow subsidiaries a party to any arrangements to enable the director of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or other body corporate.

**AUDITORS**

The Company's auditors, Messrs. Louis Lai & Luk, retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Sd/-
Chairman
Hong Kong, May 17, 2012

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZAMIRA FASHION LIMITED

**(incorporated in Hong Kong with limited liability)**

We have audited the accompanying consolidated financial statements of Zamira Fashion Limited (the "Company") and its subsidiary (collectively the "Group") set out on pages 5 to 34, which comprise the consolidated statement of financial position as at March 31, 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for snch internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan' and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation ofthe consolidated fmancial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in Note (2d) to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon continuous financial support from the shareholders to support working capital of the Group. The consolidated financial statements do not include any adjustments that may be necessary, should the implementation of such measures become unsuccessful.

We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at March 31, 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Louis Lai & Luk
Certified Public Accountants
Hong Kong, May 17, 2012

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31, 2012

| | NOTES | **2012 HK$** | 2011 HK$ |
|---|---|---|---|
| Turnover | (6) | **111,719,559** | 137,859,564 |
| Purchases and related costs | | **(89,419,615)** | (113,546,035) |
| Gross profit | | **22,299,944** | 24,313,529 |
| Other revenue | (6) | **4,942,353** | 1,006,596 |
| Staff costs | | **(9,396,969)** | (8,358,322) |
| Amortization and depreciation | | **(358,091)** | (1,484,491) |
| Other operating expenses | | **(14,307,451)** | (16,218,102) |
| Profit/(loss) from operation | | **3,179,786** | (740,790) |
| Finance costs | (7) | **(1,035,693)** | (1,004,600) |
| Profit/(loss) before taxation | (8) | **2,144,093** | (1,745,390) |
| Taxation | (10) | **–** | (281,531) |
| Profit/(loss) for the year | | **2,144,093** | (2,026,921) |
| Other comprehensive (expenses) income | | | |
| Exchange differences on translation of financial statements of overseas subsidiary | | **(48,190)** | 40,516 |
| Total comprehensive income/(expense) for the year | | **2,095,903** | (1,986,405) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2012

| | NOTES | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | (12) | **155,032** | 426,350 |
| Intangible assets | (13) | **–** | – |
| | | **155,032** | 426,350 |
| **Current Assets** | | | |
| Deposits and prepayment | | **175,422** | 115,164 |
| Trade receivables | (15) | **7,720,362** | 8,741,629 |
| Bills receivable | | **225,317** | 732,993 |
| Other receivables | | **874,629** | 868,456 |
| Amount due from a fellow subsidiary | (16) | **3,512,626** | – |
| Bank and cash balances | | **455,141** | 821,152 |
| | | **12,963,497** | 11,279,394 |
| **Current Liabilities** | | | |
| Amount due to immediate holding company | (17) | **1,011,400** | – |
| Amounts due to fellow subsidiaries | (17) | **2,779,346** | 9,252,731 |
| Trade and other payables | (18) | **5,485,914** | 6,610,727 |
| Secured bank borrowings | (19) | **15,771,884** | 9,742,636 |
| Obligation under finance lease | (20) | **138,374** | 125,568 |
| | | **25,186,918** | 25,731,662 |
| Net Current Liabilities | | **(12,223,421)** | (14,452,268) |
| Total Assets less Current Liabilities | | **(12,068,389)** | (14,025,918) |
| Non-Current Liabilities | | | |
| Obligation under finance lease | (20) | **61,436** | 199,810 |
| **NET LIABILITIES** | | **(12,129,825)** | (14,225,728) |
| Represented by: | | | |
| **CAPITAL AND RESERVES** | | | |
| Share capital | (21) | **1,945,000** | 1,945,000 |
| Accumulated losses | | **(14,090,475)** | (16,234,568) |
| Translation reserve | | **15,650** | 63,840 |
| SHAREHOLDERS' DEFICIT | | **(12,129,825)** | (14,225,728) |

Approved by the board of directors on may 17,2012 and signed on behalf of the board by:

Sd/– Sd/–
Director Director

## STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2012

| | NOTES | 2012 HK$ | 2011 HK$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non–Current Assets** | | | |
| Plant and equipment | (12) | **155,032** | 426,350 |
| Interests in a subsidiary | (14) | **–** | 1,243,447 |
| | | **155,032** | 1,669,797 |
| **Current Assets** | | | |
| Deposits and prepayment | | **175,422** | 115,164 |
| Trade receivables | (15) | **7,720,362** | 8,741,629 |
| Bills receivable | | **225,317** | 732,993 |
| Other receivables | | **874,629** | 868,128 |
| Amount due from a fellow subsidiary | (16) | **3,512,626** | – |
| Bank and cash balances | | **452,794** | 795,616 |
| | | **12,961,150** | 11,253,530 |
| **Current Liabilities** | | | |
| Amount due to immediate holding company | (17) | **1,011,400** | – |
| Amounts due to fellow subsidiaries | (17) | **2,779,346** | 8,511,364 |
| Trade and other payables | (18) | **5,485,914** | 6,604,892 |
| Secured bank borrowings | (19) | **15,771,884** | 9,742,636 |
| Obligation under finance lease | (20) | **138,374** | 125,568 |
| | | **25,186,918** | 24,984,460 |
| Net Current Liabilities | | **(12,225,768)** | (13,730,930) |
| Total Assets less Current Liabilities | | **(12,070,736)** | (12,061,133) |
| Non–Current Liabilities | | | |
| Obligation under finance lease | (20) | **61,436** | 199,810 |
| **NET LIABILITIES** | | **(12,132,172)** | (12,260,943) |
| Represented by: | | | |
| **CAPITAL AND RESERVES** | | | |
| Share capital | (21) | 1,945,000 | 1,945,000 |
| Accumulated losses | (22) | (14,077,172) | (14,205,943) |
| SHAREHOLDERS' DEFICIT | | (12,132,172) | (12,260,943) |

Approved by the board of directors on may 17, 2012 and signed on behalf of the board by:

Sd/– Sd/–
Director Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED MARCH 31, 2012

| | Share Capital HK$ | Translation Reserve HK$ | Accumulated Losses HK$ | Total HK$ |
|---|---|---|---|---|
| At April 1, 2010 | 1,945,000 | 23,324 | (14,207,647) | (12,239,323) |
| Total comprehensive expense for the year | – | 40,516 | (2,026,921) | (1,986,405) |
| At March 31, 2011 and April 1, 2011 | 1,945,000 | 63,840 | (16,234,568) | (14,225,728) |
| Total comprehensive income for the year | – | (48,190) | 2,144,093 | 2,095,903 |
| At March 31, 2012 | 1,945,000 | 15,650 | (14,090,475) | (12,129,825) |

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2012

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit/(Loss) before taxation | **2,144,093** | (1,745,390) |
| Adjustments for: | | |
| Interest income | **(1,218)** | (471) |
| Interest expenses | **1,035,693** | 1,004,600 |
| Depreciation | **358,091** | 819,330 |
| Impairment loss | **–** | 665,161 |
| **OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES** | **3,536,659** | 743,230 |
| Increase in deposits and prepayment | **(60,258)** | (44,444) |
| Decrease in trade receivables | **1,021,267** | 8,542,363 |
| Decrease/(Increase) in bills receivable | **507,676** | (732,993) |
| Increase in other receivables | **(6,173)** | (862,211) |
| Increase in amount due from a fellow subsidiary | **(3,512,626)** | – |
| Increase/(Decrease) in amount due to immediate holding company | **1,011,400** | (172,716) |
| Decrease in amounts due to fellow subsidiaries | **(6,473,385)** | (953,269) |
| Decrease in amount due to a director | **–** | (45,000) |
| Decrease in trade and other payables | **(1,124,813)** | (2,172,594) |

| | 2012 HK$ | 2011 HK$ |
|---|---|---|
| **NET CASH (USED IN)/GENERATED FROM OPERATIONS** | **(5,100,253)** | 4,302,366 |
| Interest received | **1,218** | 471 |
| Interest paid | **(1,035,693)** | (1,004,600) |
| Net cash (used in)/generated from operating activities | **(6,134,728)** | 3,298,237 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of plant and equipment | **(86,773)** | (16,421) |
| Receipt from disposal of plant and equipment | **–** | 495,117 |
| Net cash (used in)/generated from investing activities | **(86,773)** | 478,696 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net receipts of/(payments to) secured bank borrowings | **6,029,248** | (3,004,496) |
| Repayment of obligations under finance lease | **(125,568)** | (112,760) |
| Net cash generated from/(used in) financing activities | **5,903,680** | (3,117,256) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **(317,821)** | 659,677 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **821,152** | 177,698 |
| **EFFECT OF FOREIGN EXCHANGE RATES CHANGES** | **( 48,190)** | (16,223) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **455,141** | 821,152 |
| **ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS** | | |
| Bank and cash balances | **455,141** | 821,152 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL

Zamira Fashion Limited was incorporated in Hong Kong as a limited liability company. The principal activity of the Company is trading of garment. The address of its registered office is 10/F., Park Fook Industrial Building, 615-617 Tai Nan West Street, Cheung Sha Wan, Kowloon, Hong Kong. The directors consider that the ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India. The shares of the ultimate holding company is listed on the Bombay Stock Exchange and National Stock Exchange in India.

### 2. PRINCIPAL ACCOUNTING POLICIES

**a. Basis of Preparation**

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS(s)") (which also include Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("Int(s)")) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note (5) to the financial statements

In 2012, the Group adopted the new and revised HKFRSs below, which are relevant to its operations.

| | |
|---|---|
| • HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (as revised in 2008), HKFRS 7, HKAS 1 and HKAS 28 |
| • HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| • HKAS 24 (Revised) | Related Party Disclosures |
| • HK(IFRIC) - Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement |
| • HK(IFRIC) - Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

The adoption of the above HKFRSs has had no material impact on the principal accounting policies of the Group and the methods of computation in the Group's financial statements. As such, no 2011 comparatives have been amended as a result from adopting the captioned HKFRSs.

**b. Impact of issued but not yet effective HKFRSs**

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| • HKFRS 1 (Amendments) | Severe Hyperinflation and Removal at Fixed Dates for First-time Adopters(1) |
| • HKFRS 7 (Amendments) | Disclosures - Transfers of Financial Assets (1) |
| • HKFRS 7 (Amendments) | Disclosures - Offsetting Financial Assets and Financial Liabilities (4) |
| • HKFRS 9 | Financial Instruments (6) |
| • HKFRS 10 | Consolidated Financial Statements (4) |
| • HKFRS 11 | Joint Arrangements (4) |
| • HKFRS 12 | Disclosure of Interests in Other Entities (4) |
| • HKFRS 13 | Fair Value Measurement (4) |
| • HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income (3) |
| • HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets (2) Employee Benefits (2) |
| • HKAS 19 (2011) | Employee Benefits (4) |
| • HKAS 27 (2011) | Separate Financial Statements (4) |
| • HKAS 28 (2011) | Investments in Associates and Joint Ventures (4) |
| • HKAS 32 (Amendments) | Offsetting Financial Assets and Financial Liabilities (5) |
| HK(IFRIC) - Int 20 | Stripping Costs in the Production Phase of a Surface Mine (4) |

Notes:

(1) Effective for annual periods beginning on or after 1 July 2011

(2) Effective for annual periods beginning on or after 1 January 2012

(3) Effective for annual periods beginning on or after 1 July 2012

(4) Effective for annual periods beginning on or after 1 January 2013

(5) Effective for annual periods beginning on or after 1 January 2014

(6) Effective for annual periods beginning on or after 1 January 2015

The directors anticipate that all of the above new and revised standards, amendments or interpretations will be adopted in the Group's financial statements for the period commencing April 1, 2012 and that the adoption of those new and revised standards, amendments or interpretations will have no material impact on the financial statements of the Group.

**c. Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Internal transactions are eliminated on consolidation and all figures in the consolidated financial statements relate to external transactions only.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries in the Company's Statement of Financial Position are stated at cost, being the fair value of consideration given plus related acquisition costs, less any aggregate identified impairment loss.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective dates of acquisition or up to the effective date of disposal according to proportional consolidation method.

**d. Going Concern**

The shareholder has confirmed its willingness to provide such financial assistance as is necessary to maintain the Group as a going concern. On the strength of this assurance, the financial statements have been prepared on a going concern basis.

**e. Intangible Assets**

Intangible assets are stated in the consolidated financial statements at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to Consolidated Statement of Comprehensive Income on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Trademark and customer list | 3 years |

Both the period and method of amortisation are reviewed annually.

**f. Plant and Equipment**

Plant and equipment are stated at cost less aggregate depreciation and aggregate identified impairment loss, if any.

Depreciation is provided to write off the cost less residual value of plant and equipment over its expected useful lives.

| | |
|---|---|
| Leasehold improvement | 3 years |
| Furniture and fixtures | 3 years |
| Office equipment | 3 years |
| Motor vehicle | 3 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss on disposal of plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the Consolidated Statement of Comprehensive Income.

When assets are sold or otherwise disposed of, their carrying amounts are written off from the financial statements and any resulting gain or loss is included in the Consolidated Statement of Comprehensive Income.

**g. Impairment of Assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**h. Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

**i. Financial Assets**

The Group's financial assets are only classified under loans and receivables category.

**j. Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are carried at amortized cost using effective interest method, less any identified impairment losses. An impairment loss is recognised in the Consolidated Statement of Comprehensive Income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the assets recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**k. Financial Liabilities**

The Group's financial liabilities include account and other payables which are subsequently measured at amortized cost, using the effective interest method.

**l. Equity Instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's equity instrument represents its issued share capital and is recorded at the share subscription received/receivable at the date of issuance of shares.

**m. Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months.

**n. Translation of Foreign Currency**

(i) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which those entities operate ("the functional currency"). The financial statements are presented in Hong Kong Dollars ("HK$"), which are the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

**o. Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of specific assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income.

**p. Turnover**

Turnover represents invoiced amount of sales less discounts and returns.

**q. Recognition of Revenue**

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 bases as follows:

- Revenue from sales of goods is recognised when the goods are delivered to buyer.
- Interest income from bank deposit is accrued on a time proportion basis on the principal outstanding and at the rate applicable.
- Commission income is recognised in the year when services are vendered.
- Other income is recognised on a receipt basis.

**r. Borrowing Costs**

Interest and other borrowing costs incurred in connection with the borrowing of funds are recognised as expenses in the period in which they are incurred.

**s. Bank Borrowings**

Interest bearing bank loans and overdrafts are initially measured as fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs, if any) and the settlement or redemption of borrowings is recognised over the terms of borrowings in accordance with the Group's policy for borrowing cost as stated in the preceding note.

t. **Operating Leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the relevant lease.

u. **Employee Benefits**

Employee benefits are all forms of considerations, including wages, salaries, allowances and contribution to retirement benefit scheme payable by the Group in exchange for services rendered by its employees and directors. The employee benefits are classified as staff costs and charged to the Consolidated Statement of Comprehensive Income.

No provision on employee entitlements to annual leave is provided in the financial statements as the directors consider that no material liability would arise as a result of such entitlement in the near future. Sick leave and maternity leave are not recognised until the time of leave.

v. **Retirement Benefit Scheme**

The Group participates in Mandatory Provident Fund Scheme ("MPF Scheme") for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, each of the employer and employees are required to make contributions to the scheme at rates specified in the rules.

The MPF Scheme is a defined contribution plan and the Group is only obliged to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit cost arising from the MPF Scheme charged to the Consolidated Statement of Comprehensive Income represent contribution payable to the funds by the Group in accordance with the rules of the MPF Scheme.

w. **Finance Leases/Hire Purchase Contracts**

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset to the Group are accounted for as finance leases.

Assets held under finance leases or hire purchase contracts are recognised as assets of the Group at the lowest of their fair value or present value of the minimum lease payments at the date of acquisition. The depreciation policy for such assets is consistent with that for equivalent depreciable assets which are owned by the Group, unless there is no reasonable certainty that the Group will obtain the ownership of such assets by the end of the lease terms, in which case the assets will be fully depreciated over the shorter of the lease terms or their estimated useful life.

The corresponding liability to the lessor or hire purchase creditor is included in the Consolidated Statement of Financial Position as an obligation under finance lease or hire purchase contract. The finance costs, which represent the difference between the total leasing commitments and the outstanding principal amount at the date of inception of the finance lease or hire purchase contract, are charged to the Consolidated Statement of Comprehensive Income at a constant periodic rate on the remaining balance of the obligations under finance leases or hire purchase contracts for each accounting period.

x. **Contingent Liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability is not recognised but is disclosed in the notes to the financial statements.

y. **Related Parties**

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or a parent of the Group.

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

z. **Financial Risks**

The financial risks in connection with the Group's financial instruments include risks as follows.

(i) Market risk includes three types of risk as below:

- Currency risk: the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Fair value interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.
- Price risk: the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Market risk embodies not only the potential for loss but also the potential for gain.

(ii) Credit risk: the risk that the corresponding party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

(iii) Liquidity risk (also referred to as funding risk): the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

(iv) Cash flow interest rate risk: the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

3. **CAPITAL MANAGEMENT**

The Group's objectives when managing capital are:

(i) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(ii) To support the Group's stability and growth; and

(iii) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

4. **FINANCIAL RISK MANAGEMENT**

The Group's financial risks are limited by the financial management policies and practices described below.

(a) Market risk - Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions, the Group uses forward contracts, transacted with one of fellow subsidiary and charge back to the Group for the gain/loss on foreign exchange contract. The Group is responsible for managing the net position in each foreign currency by using external forward currency contracts.

(b) Credit risk

The Group has no significant concentrations of credit risk because the creditworthiness of each of the Group's customers has been assessed before any goods are supplied to them on credit. The directors are not aware of any factor indicating that any debtors would not be capable of repaying their outstanding amounts. Accordingly, the directors are of the opinion that the Group is adequately protected from the credit risk.

(c) Liquidity risk

As the holding company and fellow subsidiaries have confirmed its willingness to provide continuous financial support to the Group, the management is of the opinion that the Group is adequately protected from the liquidity risk.

(d) Cash flow and fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings from a financial institution as disclosed in Note (19).

As the holding company and fellow subsidiaries have confirmed the willingness to provide continuous financial support, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

5. **CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimate of fair value of current assets and liabilities

The nominal value of current assets and liabilities are assumed to approximate their fair value.

6. **RECOGNITION OF REVENUE**

| | Group | |
|---|---|---|
| | **2012 HK$** | 2011 HK$ |
| Revenue recognised during the year including revenue arising from: | | |
| Turnover: | | |
| Sales of goods | **111,719,559** | 137,859,564 |
| Other revenue: | | |
| Bank interest income | **1,218** | 471 |
| Commission income | **3,512,626** | 599,421 |
| Sundry income | **1,428,509** | 406,704 |
| | **4,942,353** | 1,006,596 |
| Total revenue recognized | **116,661,912** | 138,866,160 |

7. **FINANCE COSTS**

| | | |
|---|---|---|
| Bank overdraft interest | **277,105** | 139,588 |
| Finance lease interest | **25,081** | 37,888 |
| Other interest paid | **641,126** | 708,640 |
| Bank loan interest | **92,381** | 118,484 |
| | **1,035,693** | 1,004,600 |

8. **PROFIT/(LOSS) BEFORE TAXATION**

Profit/(Loss) before taxation is stated after charging and (crediting):

| | | |
|---|---|---|
| Auditors' remuneration | **83,000** | 115,300 |
| Depreciation – owned assets | **192,107** | 653,346 |
| – assets held under finance lease | **165,984** | 165,984 |
| Exchange difference | **( 576,970)** | 1,276,878 |
| Impairment loss of intangible assets | **–** | 665,161 |
| Rental payments under operating leases | **960,801** | 743,412 |
| Staff costs (including director's remuneration) | | |
| – Salaries and allowance | **9,046,551** | 8,043,136 |
| – MPF contribution | **213,108** | 242,478 |
| – Severance payment | **104,558** | – |
| – Staff training | **356** | – |
| – Staff welfare expenses | **32,396** | 72,708 |

9. **DIRECTOR'S REMUNERATION**

| | Group | |
|---|---|---|
| | **2012 HK$** | 2011 HK$ |
| Fees | **–** | – |
| Other emoluments | **1,200,000** | 1,200,000 |
| | **1,200,000** | 1,200,000 |

10. **TAXATION**

a. No Hong Kong profits tax has been provided in these financial statements as the assessable profits for the year have been wholly offset by taxation loss sustained in previous years,

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2012 HK$** | 2011 HK$ | **2012 HK$** | 2011 HK$ |
| The Company and its subsidiary: | | | | |
| Deferred taxation - current year | **–** | (281,531) | **–** | – |

b. The tax charge for the year can be reconciled to the loss per Consolidated Statement of Comprehensive Income as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2012 HK$** | 2011 HK$ | **2012 HK$** | 2011 HK$ |
| Profit/(Loss) before taxation | **2,144,093** | **(1,745,390)** | **128,771** | **(887,053)** |
| Tax at the domestic income tax rate | **585,537** | ( 386,705) | **21,247** | (146,363) |
| Tax effect of expenses that are not deductible in determining taxable profit | **339,957** | – | **339,957** | – |
| Tax effect of income that are not taxable in determining taxable profit | **(593,029)** | (78) | **(201)** | (78) |
| Net tax allowance claimed | **16,875** | 288,453 | **16,875** | 70,907 |
| Tax loss not yet recognised | **–** | 98,330 | **–** | 75,534 |
| Utilization of tax loss previously not recognised | **( 349,340)** | – | **(377,878)** | – |
| Current year deferred tax | **–** | ( 281,531) | **–** | – |
| Taxation income for the year | **–** | ( 281,531) | **–** | – |

At the end of reporting period, the Company has unused tax losses of HK$10,760,735 (2011: HK$13,050,910) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Tax losses maybe carried forward indefinitely.

11. **LOSS ATTRIBUTABLE TO SHAREHOLDERS**

Included in the profit of HK$2,144,093 (2011: loss of HK$2,026,921) attributable to shareholders of the Group is a profit ofHK$128,771 (2011: loss of HK$887,053) which is dealt with in the Company's own accounts.

**12. PLANT AND EQUIPMENT**

**Group**

| | Leasehold Improvement HK$ | Furniture and Fixtures HK$ | Office Equipment HK$ | Motor Vehicle HK$ | Total HK$ |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1/4/2010 | 2,018,893 | 451,806 | 645,628 | 498,000 | 3,614,327 |
| Additions | – | 4,833 | 11,588 | – | 16,421 |
| Disposal | (488,041) | (168,299) | (199,733) | – | ( 856,073) |
| Exchange realignment | 17,348 | 5,978 | 7,096 | – | 30,422 |
| At 31/3/2011 and 1/4/2011 | 1,548,200 | 294,318 | 464,579 | 498,000 | 2,805,097 |
| Additions | – | 29,186 | 57,587 | – | 86,773 |
| At 31/3/2012 | 1,548,200 | 323,504 | 522,166 | 498,000 | 2,891,870 |
| **Aggregate Depreciation** | | | | | |
| At 1/4/2010 | 1,174,620 | 254,062 | 373,706 | 110,655 | 1,913,043 |
| Charge for the year | 394,338 | 95,730 | 163,278 | 165,984 | 819,330 |
| Written Back | (170,814) | ( 73,631) | (116,512) | – | ( 360,957) |
| Exchange Realignment | 3,469 | 1,495 | 2,367 | – | 7,331 |
| At 31/3/2011 and 1/4/2011 | 1,401,613 | 277,656 | 422,839 | 276,639 | 2,378,747 |
| Charge for the year | 126,054 | 19,733 | 46,320 | 165,984 | 358,091 |
| At 31/3/2012 | 1,527,667 | 297,389 | 469,159 | 442,623 | 2,736,838 |
| **Net Book Value** | | | | | |
| At 31/3/2012 | 20,533 | 26,115 | 53,007 | 55,377 | 155,032 |
| At 31/3/2011 | 146,587 | 16,662 | 41,740 | 221,361 | 426,350 |

The net book value of plant and equipment of HK$155,032 (2011: HK$426,350) includes an amount of HK$55,377 (2011: HK$221,361) in respect of assets held under hire purchase contracts.

**Company**

| | Leasehold Improvement HK$ | Furniture and Fixtures HK$ | Office Equipment HK$ | Motor Vehicle HK$ | Total HK$ |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1/4/2010 | 1,548,200 | 289,485 | 452,991 | 498,000 | 2,788,676 |
| Additions | – | 4,833 | 11,588 | – | 16,421 |
| At 31/3/2011 and 1/4/2011 | 1,548,200 | 294,318 | 464,579 | 498,000 | 2,805,097 |
| Additions | – | 29,186 | 57,587 | – | 86,773 |
| At 31/3/2012 | 1,548,200 | 323,504 | 522,166 | 498,000 | 2,891,870 |
| **Aggregate Depreciation** | | | | | |
| At 1/4/2010 | 1,080,481 | 213,482 | 309,494 | 110,655 | 1,714,112 |
| Charge for the year | 321,132 | 64,174 | 113,345 | 165,984 | 664,635 |
| At 31/3/2011 and 1/4/2011 | 1,401,613 | 277,656 | 422,839 | 276,639 | 2,378,747 |
| Charge for the year | 126,054 | 19,733 | 46,320 | 165,984 | 358,091 |
| At 31/3/2012 | 1,527,667 | 297,389 | 469,159 | 442,623 | 2,736,838 |
| **Net Book Value** | | | | | |
| At 31/3/2012 | 20,533 | 26,115 | 53,007 | 55,377 | 155,032 |
| At 31/3/2011 | 146,587 | 16,662 | 41,740 | 221,361 | 426,350 |

The net book value of plant and equipment of HK$155,032 (2011: HK$426,350) includes an amount of HK$55,377 (2011: HK$221,361) in respect of assets held under hire purchase contracts.

**13. INTANGIBLE ASSETS**

| | Trade Mark and customer list | |
|---|---|---|
| Cost | GROUP HK$ | COMPANY HK$ |
| At 1/4/2010, 31/3/2011 and 31/312012 | 962,287 | – |
| **Impairment Loss** | | |
| At 1/4/2010 | 320,762 | – |
| Charge for the year | 665,161 | – |
| Exchange realignment | ( 23,636) | – |
| At 31/3/2011 and 31/3/2012 | 962,287 | – |
| **Net Book Value** | | |
| At 31/3/2012 | – | – |
| At 31/3/2011 | – | – |

**14. INTERESTS IN A SUBSIDIARIES**

| | COMPANY | |
|---|---|---|
| | **2012 HK$** | 2011 HK$ |
| Unlisted shares, at cost | **1,128** | 1,128 |
| Add: Amount due from a subsidiary | **–** | 1,242,319 |
| Less: Provision for impairment on investment in a subsidiary | **(1,128)** | – |
| | – | 1,243,447 |

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Details of the subsidiary are as follows:

| Name of subsidiary | Place of incorporation | Percentage of Equity attributable to the Group | | Principal activity |
|---|---|---|---|---|
| | | 2012 | 2011 | |
| * Zamira Fashions (Europe) Limited | England and Wales | 100% | 100% | Conduct no business |

* Not audited by Louis Lai & Luk

Applied for winding-up on March 24, 2012

**15. TRADE RECEIVABLES**

| | GROUP AND COMPANY | |
|---|---|---|
| | **2012 HK$** | 2011 HK$ |
| Trade receivable (Note (i)) | **7,720,362** | 8,741,629 |
| (i) Aging analysis of trade receivables is as follows: | | |
| Neither past due nor impaired | **7,666,201** | 8,741,629 |
| Past due but not impaired | **54,161** | – |
| | **7,720,362** | 8,741,629 |

Trade receivables are due within 90 days from date of billing.

**16. AMOUNT DUE FROM A FELLOW SUBSIDIARY**

The amount due from a fellow subsidiary is unsecured, interest-free and has no fixed terms of repayments. No provisions for bad and doubtful debts have been recognised on the amount due. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

**17. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES**

Apart from a balance with a fellow subsidiary amounting HK$985,824 (2011: HK$6,979,297) which is interest-bearing at a rate of 7.5% per annum, the remaining amounts are interest-free. The amounts due are unsecured and have no fixed terms of repayment. The immediate holding company and fellow subsidiaries had agreed not to demand repayment until the Group is financially capable of repayment. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

**18. TRADE AND OTHER PAYABLES**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2012 HK$** | 2011 HK$ | **2012 HK$** | 2011 HK$ |
| Trade payable (Note (i)) | **5,119,223** | 5,849,189 | **5,119,223** | 5,849,189 |
| Accruals | **366,691** | 761,538 | **366,691** | 755,703 |
| | **5,485,914** | 6,610,727 | **5,485,914** | 6,604,892 |
| (i) Maturity of the trade payables is as follows: | | | | |
| Due for payment: | | | | |
| Not later than one year | **5,119,223** | 5,849,189 | **5,119,223** | 5,849,189 |

**19. SECURED BANK BORROWINGS**

The carrying amount of the secured bank borrowings at the end of reporting period is analyzed as follows:

| | GROUP AND COMPANY | |
|---|---|---|
| | **2012 HK$** | 2011 HK$ |
| Amount repayable within one year: | | |
| Discounted bills loan | **–** | 751,038 |
| Trust receipt loan | **12,347,884** | 4,223,598 |
| Term loan | **1,344,000** | 1,344,000 |
| | **13,691,884** | 6,318,636 |
| Amount not repayable within one year but contain a repayment on demand clause: | | |
| Term loan | **2,080,000** | 3,424,000 |
| | **15,771,884** | 9,742,636 |

**20. OBLIGATION UNDER FINANCE LEASE**

| | GROUP AND COMPANY | | | |
|---|---|---|---|---|
| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
| | **2012 HK$** | 2011 HK$ | **2012 HK$** | 2011 HK$ |
| Amount payable under finance lease: | | | | |
| Within one year | **150,648** | 150,648 | **138,374** | 125,568 |
| Second to fifth years inclusive | **62,770** | 213,418 | **61,436** | 199,810 |
| | **213,418** | 364,066 | **199,810** | 325,378 |
| Future finance charges | **13,608** | 38,688 | | |
| | **199,810** | 325,378 | | |
| Less: Portion classified as current liabilities | | | **138,374** | 125,568 |
| Amounts due after one year included in non-current liabilities | | | **61,436** | 199,810 |

The lease term is four years and the lease is repayable in fixed monthly instalements.

No arrangement has been entered into for contingent rental payments.

**21. SHARE CAPITAL**

| | COMPANY | |
|---|---|---|
| | **2012 HK$** | 2011 HK$ |
| Authorised, issued and fully paid-up: | | |
| 250,000 shares of US$ 1 each | **1,945,000** | 1,945,000 |

**22. RESERVES**

| | Accumulated Losses HK$ | Total HK.$ |
|---|---|---|
| COMPANY | | |
| Balance at April 1, 2010 | (13,318,890) | (13,318,890) |
| Total comprehensive expense for the year | (887,053) | (887,053) |
| Balance at March 31, 2011 and April 1, 2011 | (14,205,943) | (14,205,943) |
| Total comprehensive income for the year | 128,771 | 128,771 |
| Balance at March 31, 2012 | (14,077,172) | (14,077,172) |

**23. OPERATING LEASE COMMITMENTS**

At the end of reporting period, the Group had the outstanding commitments under its non-cancellable operating leases, which fall due as follows:

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Within one year | **25,454** | 83,899 |
| In the second to fifth years inclusive | **–** | - |
| | **25,454** | 83,899 |

Operating lease payments represent rental payments payable by the Group for its leased premises. Leases are negotiated for an averaged term two years.

**24. RELATED PARTY TRANSACTIONS**

During normal course of business, the Group had the following transactions with the related parties below.

| **Name of Company** | **Relationship with the Company** | **Nature of transactions** | **2012 HK$** | **2011 HK$** |
|---|---|---|---|---|
| Norwest Industries Ltd., Hong Kong | Fellow subsidiary | - Sample expenses | – | 120,240 |
| | | - Management and service fee | **78,894** | 89,470 |
| | | - Rental paid | **700,800** | 700,800 |
| | | - Interest paid | **641,126** | 708,640 |
| | | - Commission received | **–** | (524,033) |
| | | - Amount due to | **(985,824)** | (6,979,297) |
| PG Group Ltd., Hong Kong | Fellow subsidiary | - Management and service fee | **215,319** | 326,527 |
| Poeticgem Ltd., UK | Fellow subsidiary | - Commission received | **–** | ( 27,588) |
| | | - Commission paid | **–** | 323,457 |
| | | - Amount due to | **(1,532,067)** | (1,532,067) |
| Simple Approach Ltd., Hong Kong | Fellow subsidiary | - Management and service fee | **112,000** | 139,000 |
| | | - Commission received | **–** | (47,800) |
| | | - Commission paid | **–** | 480,182 |
| SSY Asia Limited | Related company * | - Consultancy fee | **600,000** | 421,06 |
| Pearl Global Industries Ltd. (formerly known as House of Pearl Fashions Ltd.), India | Ultimate holding company | - Security system | **70,798** | 80,912 |
| Multinational Textile Group Ltd., Mauritius | Immediate holding company | - Management fee and service fee | **389,000** | 290,972 |
| | | - Amount due to | **(1,011,400)** | – |
| Nor Lanka Manufacturing Ltd. | Fellow subsidiary | - Management and service fee | **295,821** | – |
| | | - Amount due to | **( 261,455)** | – |
| FX Import Co. Ltd. | Fellow subsidiary | - Commission received | **3,512,626** | – |
| | | - Amount due from | **3,512,626** | – |

* Connected with Thomas Mueller who is a controlling director and shareholder of both companies.

## 25. CONTINGENT LIABILITIES

(a) The Group had the following contingent liabilities not provided for in the financial statements at the end of reporting period:

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Irrevocable letters of credit | **14,906,233** | 11,225,242 |

(b) At the end of reporting period, there were mutual guarantees between the Company and its fellow subsidiary.

## 26. CURRENCY RISK

### (i) Exposure to currency risk

The following table details the Group's exposure at the end of reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date.

| | | | **(Expressed in HKD) 2012** | | | |
|---|---|---|---|---|---|---|
| | **USD** | **CHF** | **EUR** | **GBP** | **BDT** | **Total** |
| Trade receivables | **2,021,151** | **–** | **3,086,866** | **2,373,954** | **–** | **7,481,971** |
| Bills receivable | **–** | **15,803,280** | **–** | **67,218** | **–** | **15,870,498** |
| Bank and cash balances | **304,291** | **1,286,640** | **–** | **15,301** | **117,314** | **1,747,274** |
| Trade and other payables | **(4,970,883)** | **–** | **(295,404)** | **–** | **( 11,913)** | **(5,278,200)** |
| Secured bank borrowings | **(12,347,887)** | **–** | **–** | **–** | **–** | **(12,347,887)** |
| Net exposure arising from recognised assets and liabilities | **(14,993,328)** | **17,089,920** | **2,815,190** | **2,456,473** | **105,401** | **7,473,656** |

| | | | (Expressed in HKD) 2011 | | | |
|---|---|---|---|---|---|---|
| | USD | CHF | EUR | GBP | BDT | Total |
| Trade receivables | 2,621,619 | 282,181 | 5,824,101 | 14,492 | – | 8,742,393 |
| Bills receivable | 732,993 | – | – | – | – | 732,993 |
| Bank and cash balances | 481,185 | 11,250 | 9,967 | 16,496 | 173,010 | 691,908 |
| Trade and other payables | (4,840,343) | - | (1,037,904) | (17,841) | – | (5,896,088) |
| Secured bank borrowings | (4,402,546) | - | (572,213) | - | - | (4,974,759) |
| Net exposure arising from recognised assets and liabilities | (5,407,092) | 293,431 | 4,223,951 | 13,147 | 173,010 | (703,553) |

### (ii) Sensitivity analysis

The following table indicates the approximate change in the Group's loss before tax in response to reasonably possible changes (e.g.±10%) in the foreign exchange rates to which the Group has significant exposure at the end of reporting period.

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Increase HK$** | **Decrease HK$** | Increase HK$ | Decrease HK$ |
| Swiss Franc (CHF) | **17,090** | **( 17,090)** | 29,343 | (29,343) |
| Euro (EUR) | **281,519** | **(281,519)** | 422,395 | (422,395) |
| British Pound (GBP) | **245,647** | **(245,647)** | 1,314 | (1,314) |
| Bangladeshi Taka (EDT) | **10,358** | **( 10,358)** | 17,741 | (17,741) |
| | **554,614** | **(554,614)** | 470,793 | (470,793) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to the Group's exposure to currency risk for the variables.

The stated changes represent Management's assessment of reasonably possible change in foreign exchange rates over the period until the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on Group's profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2011.

## 27. INTEREST RATE RISK

| | **2012 HK$** | 2011 HK$ |
|---|---|---|
| Financial liabilities bearing variable interests: | | |
| Discounted bills loan | **–** | 751,038 |
| Trust receipts loan | **12,347,884** | 4,223,598 |
| Term loan | **3,424,000** | 4,768,000 |
| | **15,771,884** | 9,742,636 |

Should market interest rate on March 31 increase by 10%, the profit or loss for the year would be reduced by a net amount of HK$103,569 (2011: HK$100,460). The carrying amounts of financial assets and financial liabilities measured at amortised cost and the carrying amount of financial liabilities bearing variable interest measure at fair value would not be affected by the assumed 10% increase in interest rates.

## 28. BANKING FACILITIES

General banking facilities granted by a bank were secured by fellow subsidiaries' corporate guarantee, ultimate holding and intermediate holding companies' corporate guarantee, directors' personal guarantee, bank guarantee and fellow subsidiary's properties.

## 29. COMPARATIVE FIGURES

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

## 30. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Company's Board of Directors on May 17, 2012.

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 March 2012.

**Principal activities**

The principal activities of the Company were the trading of home and garment products, and investment holding. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

**Results**

The Group's profit for the year ended 31 March 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 5 to 37.

**Property, plant and equipment**

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 10 to the financial statements.

**Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 17 to the financial statements and in the consolidated statement of changes in equity, respectively.

**Directors**

The directors of the Company during the year were:

Berstein Jauregui Sebastian Felipe
Deepak Kumar Seth
Guiloff Titelman Yariv
Pallak Seth
Payel Seth

In accordance with the Company's articles of association, all directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

**Directors' interests**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**Directors' interests in contracts**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year

**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
Sd/-
Chairman
Hong Kong

18 MAY 2012

## INDEPENDENT AUDITORS' REPORT

**To the shareholders of PG Group Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of PG Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 5 to 37, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated and company income statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012, and of the Company's profit and the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Certified Public Accountants
Hong Kong,
18 May 2012

## CONSOLIDATED INCOME STATEMENT YEAR ENDED 31 MARCH 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **REVENUE** | 4 | **28,116,318** | 22,025,286 |
| Cost of sales | | **(23,351,992)** | (18,702,138) |
| Gross profit | | **4,764,326** | 3,323,148 |
| Other income | 4 | **70,380** | 568,751 |
| Selling and administrative expenses | | **(3,805,831)** | (3,493,610) |
| Finance costs | 7 | **(85,265)** | (33,724) |
| **PROFIT BEFORE TAX** | 5 | **943,610** | 364,565 |
| Income tax expense | 8 | **(140,137)** | (49,376) |
| **PROFIT FOR THE YEAR** | | **803,473** | 315,189 |
| Attributable to: | | | |
| Owners of the parent | 9 | **796,673** | 315,148 |
| Non-controlling interests | | **6,800** | 41 |
| | | **803,473** | 315,189 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 MARCH 2012

| | 2012 US$ | 2011 US$ |
|---|---|---|
| **PROFIT FOR THE YEAR** | **803,473** | 315,189 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| Exchange differences on translation of foreign operations | **949** | (9,342) |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | **949** | (9,342) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **804,422** | 305,847 |
| Attributable to: | | |
| Owners of the parent | **797,527** | 306,740 |
| Non-controlling interests | **6,895** | (893) |
| | **804,422** | 305,847 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON 31 MARCH 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | **63,059** | 41,959 |
| Intangible assets | 11 | **13,883** | 5,524 |
| Deposits | | **26,980** | 47,789 |
| Due from a director | 15 | **–** | 7,000 |
| Total non-current assets | | **103,922** | 102,272 |
| **CURRENT ASSETS** | | | |
| Trade and bills receivables | 13 | **775,749** | 1,401,413 |
| Prepayments, deposits and other receivables | | **249,232** | 188,466 |
| Due from a fellow subsidiary | 19(b)(i) | **138,316** | – |
| Due from a related company | 14 | **446,434** | 906,806 |
| Due from directors | 15 | **411,000** | 404,000 |
| Cash and cash equivalents | | **672,243** | 679,287 |
| Total current assets | | **2,692,974** | 3,579,972 |
| **CURRENT LIABILITIES** | | | |
| Trade and Bills payables | | **797,017** | 1,140,471 |
| Other payables, accruals and receipts in advance | | **269,181** | 513,792 |
| Due to the immediate holding company | 19(b)(ii) | **1,250,000** | 2,400,348 |
| Due to fellow subsidiaries | 19(b)(i) | **8,483** | 55,825 |
| Tax payable | | **107,945** | 11,960 |
| Total current liabilities | | **2,432,626** | 4,122,396 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **260,348** | (542,424) |
| Net assets/(liabilities) | | **364,270** | (440,152) |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 16 | **1,000,000** | 1,000,000 |
| Reserves | | **(641,732)** | (1,439,259) |
| | | **358,268** | (439,259) |
| **Non-controlling interests** | | **6,002** | (893) |
| Total equity/(net deficiency in assets) | | **364,270** | (440,152) |

Sd/-
Pallak Seth
Director

Sd/-
Deepak Seth
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 MARCH 2012

| | Issued capital US$ | Exchange reserve US$ | Accumulated losses US$ | Total Equity attributable to owners of the parent US$ | Non-controlling interests US$ | Total US$ |
|---|---|---|---|---|---|---|
| At 1 April 2010 | 1,000,000 | (32,291) | (1,713,708) | (745,999) | – | (745,999) |
| Profit for the year | – | – | 315,148 | 315,148 | 41 | 315,189 |
| Other comprehensive loss for the year: | | | | | | |
| Exchange differences on translation of foreign operations | – | (8,408) | – | (8,408) | (934) | (9,342) |
| Total comprehensive income for the year | – | (8,408) | 315,148 | 306,740 | (893) | 305,847 |
| At 31 March 2011 and at 1 April 2011 | 1,000,000 | (40,699) | (1,398,560) | (439,259) | (893) | (440,152) |
| Profit for the year | – | – | 796,673 | 796,673 | 6,800 | 803,473 |
| Other comprehensive income for the year: | | | | | | |
| Exchange differences on translation of foreign operations | – | 854 | – | 854 | 95 | 949 |
| Total comprehensive income for the year | – | 854 | 796,673 | 797,527 | 6,895 | 804,422 |
| At 31 March 2012 | 1,000,000 | (39,845)* | (601,887)* | 358,268 | 6002 | 364,270 |

* These reserve accounts comprise the deficit reserves of HK$ 641,732 (2011: HK$ 1,439,259) in the consolidated statement of financial position.

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED 31 MARCH 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **943,610** | 364,565 |
| Adjustments for: | | | |
| Interest income | 4 | **(14,256)** | (3,379) |
| Depreciation | 5 | **28,567** | 85,736 |
| Finance costs | 7 | **85,265** | 33,724 |
| | | **1,043,186** | 480,646 |
| Decrease/(Increase) in trade and bills receivables | | **625,664** | (119,909) |
| Increase in prepayments, deposits and other receivables | | **(40,283)** | (92,046) |
| Increase in an amounts due from a fellow subsidiary | | **(138,316)** | – |
| Decrease in an amount due from a related company | | **460,372** | 243,188 |
| Increase/(decrease) in trade and bills payables | | **(343,454)** | 563,548 |
| Increase/(decrease) in other payables, accruals and receipts in advance | | **(243,980)** | 304,357 |
| Decrease in amounts due to fellow subsidiaries | | **(47,342)** | (622,303) |
| Cash generated from operations | | **1,315,847** | 757,481 |
| Interest received | | **14,256** | 3,379 |
| Overseas tax paid | | **(44,152)** | (41,479) |
| Net cash flows from operating activities | | **1,285,951** | 719,381 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | 10 | **(49,838)** | (9,681) |
| Purchase of items of intangible asset | | **(8,359)** | - |
| Net cash flows used in investing activities | | **(58,197)** | (9,681) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Decrease in an amount due to the immediate holding company | | **(1,148,524)** | (82,108) |
| Interest paid | | **(85,265)** | (33,724) |
| Net cash flows used in financing activities | | **(1,233,789)** | (115,832) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(6,035)** | 593,868 |
| Cash and cash equivalents at beginning of year | | **679,287** | 81,131 |
| Effect of foreign exchange rate changes, net | | **(1,009)** | 4,288 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **672,243** | 679,287 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **672,243** | 679,287 |

## INCOME STATEMENT YEAR ENDED 31 MARCH 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **REVENUE** | 4 | **22,936,566** | 16,269,416 |
| Cost of sales | | **(19,110,975)** | (14,014,804) |
| Gross profit | | **3,825,591** | 2,254,612 |
| Other income | 4 | **290,839** | 827,928 |
| Selling and administrative expenses | | **(3,155,558)** | (2,684,677) |
| Finance costs | 7 | **(85,265)** | (33,709) |
| **PROFIT BEFORE TAX** | 5 | **875,607** | 364,154 |
| Income tax expense | 8 | **(140,137)** | (49,376) |
| **PROFIT FOR THE YEAR** | | **735,470** | 314,778 |

## STATEMENT OF FINANCIAL POSITION 31 MARCH 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | **53,773** | 29,192 |
| Investment in a subsidiary | 12 | **225,000** | 225,000 |
| Deposit | | **20,770** | 41,749 |
| Due from a director | 15 | **-** | 7,000 |
| Total non-current assets | | **299,543** | 302,941 |
| **CURRENT ASSETS** | | | |
| Trade and bills receivables | 13 | **488,234** | 525,319 |
| Prepayments, deposits and other receivables | | **167,240** | 132,203 |
| Due from a subsidiary | 12 | **593,638** | 857,168 |
| Due from a fellow subsidiary | 19(b)(i) | **138,316** | – |
| Due from a related company | 14 | **446,434** | 906,806 |
| Due from directors | 15 | **411,000** | 404,000 |
| Cash and cash equivalents | | **358,717** | 476,474 |
| Total current assets | | **2,603,579** | 3,301,970 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | | **541,227** | 736,451 |
| Other payables and accruals | | **196,027** | 336,357 |
| Due to the immediate holding company | 19(b)(ii) | **1,250,000** | 2,400,348 |
| Due to fellow subsidiaries | 19(b)(i) | **8,483** | 55,825 |
| Tax payable | | **107,945** | 11,960 |
| Total current liabilities | | **2,103,682** | 3,540,941 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **499,897** | (238,971) |
| Net assets | | **799,440** | 63,970 |
| **EQUITY** | | | |
| Issued capital | 16 | **1,000,000** | 1,000,000 |
| Accumulated losses | | **(200,560)** | (936,030) |
| Total equity | | **799,440** | 63,970 |

| | |
|---|---|
| Sd/-<br>Pallak Seth<br>Director | Sd/-<br>Deepak Seth<br>Director |

## NOTES TO FINANCIAL STATEMENTS 31 MARCH 20012

### 1. CORPORATE INFORMATION

PG Group Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 9/F, Surson Commercial Building, 140-142 Austin Road, Tsim Sha Tsui, Kowloon, Hong Kong.

During the year, the Group was primarily engaged in the trading of home and garment products, and investment holding.

The Company is a subsidiary of Multinational Textile Group Limited, a company incorporated in Mauritius. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on the National Stock Exchange in India.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and are presented in United States dollars ("US$").

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2012. The financial statements of its subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of its subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain new and revised HKFRSs became effective for the first time during the current financial year but are not applicable to the Group, and accordingly, they have had no impact on the Group's financial statements for the year ended 31 March 2012.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the year ended 31 March 2012, in these financial statements. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of its subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
  (i) has control or joint control over the Group;
  (ii) has significant influence over the Group; or
  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
  (i) the entity and the Company are members of the same group;
  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  (iii) the entity and the Company are joint ventures of the same third party;
  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold improvements | Over the lease terms |
| Furniture and fixtures | 10% - 33 $^1/_3$% |
| Office equipment | 10% - 33 $^1/_3$% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives 'are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

The Group's brandname and merchandise license are stated at cost less any impairment losses.

Operating 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 lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Financial instruments

*Financial assets*

The Group's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment loss on loans and receivables is recognised when there is objective evidence that the Group will not be able to collect all the amounts due to it in accordance with the original terms of the loans and receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Group's financial liabilities are classified and accounted for as financial liabilities at amortised cost. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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) commission income, in the period in which the sale services are rendered; and

(c) interest income, on an accrual basis using the effective interest method.

Employee benefits

*Retirement benefit costs*

The Group operates a mandatory provident fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Foreign currencies

These financial statements are presented in US$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

The functional currency of an overseas subsidiary is a currency other than the US$. As at the end of the reporting period, the assets and liabilities of the subsidiary are translated into the presentation currency of the Company at the exchange rate ruling at the end of the reporting period, and its income statement is translated into US$ at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into US$ at the weighted average exchange rates for the year.

**4. REVENUE AND OTHER INCOME**

Revenue, which is also the Group's and the Company's turnover, represents the net invoiced value of goods sold.

An analysis of other income is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Interest income | **14,256** | 3,379 | **36,574** | 35,825 |
| Commission income | **–** | 407,070 | **212,051** | 644,253 |
| Foreign exchange differences, net | **–** | 305 | **–** | (2,816) |
| Compensation from suppliers for late shipments | **38,686** | 154,665 | **38,686** | 150,666 |
| Others | **17,438** | 3,332 | **3,528** | – |
| | **70,380** | 568,751 | **290,839** | 827,928 |

## 5. PROFIT BEFORE TAX

The Group's and the Company's profit before tax is arrived at after charging/(crediting):

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Auditors' remuneration | **23,598** | 23,136 | **11,799** | 11,568 |
| Depreciation | **28,567** | 85,736 | **25,146** | 31,270 |
| Minimum lease payments under operating leases of land and buildings | **198,185** | 226,654 | **164,774** | 181,969 |
| Staff costs (excluding directors' remuneration (note 6)): | | | | |
| Salary and allowances | **939,176** | 912,002 | **569,131** | 513,261 |
| Pension scheme contribution (defined contribution scheme) | **167,757** | 175,140 | **160,832** | 167,939 |
| | **1,069,933** | 1,087,142 | **729,963** | 681,200 |
| Foreign exchange differences, net | **35,953** | (305) | **26,586** | 2,816 |

## 6. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group and Company | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Fees | **–** | – |
| Other emoluments: | | |
| Salaries and allowances | **105,133** | 103,977 |
| | **105,133** | 103,977 |

## 7. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Interest on bank overdrafts | **41,874** | 33,724 | **41,874** | 33,709 |
| Interest on an amount due to the immediate holding company | **43,391** | – | **43,391** | – |
| | **85,265** | 33,724 | **85,265** | 33,709 |

## 9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 March 2012. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group and the Company operate.

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Current: | | | | |
| Hong Kong | **79,467** | – | **79,467** | – |
| Mainland China | **60,670** | 49,376 | **60,670** | 49,376 |
| Tax charge at the Group's effective rate | **140,137** | 49,376 | **140,137** | 49,376 |

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory tax rate of 16.5% (2011: 16.5%) to the tax charge at the effective tax rate is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Profit before tax | **943,610** | 364,565 | **875,607** | 364,154 |
| Tax at the statutory tax rate | **155,696** | 60,153 | **144,475** | 60,085 |
| Income not subject to tax | **–** | (8,973) | **–** | – |
| Expenses not deductible for tax | **14,840** | 55,667 | **7,341** | 9,224 |
| Tax losses utilised from previous periods | **(88,582)** | (71,181) | **(77,397)** | (69,309) |
| Deemed income tax on the Group's/Company's representative office located in Mainland China | **60,670** | 49,376 | **60,670** | 49,376 |
| Effects of taxes elsewhere | **(7,535)** | (35,666) | **–** | – |
| Others | **5,048** | – | **5,048** | – |
| Tax at the effective tax rate | **140,137** | 49,376 | **140,137** | 49,376 |

At the end of the reporting period, the Group and the Company had tax losses arising in Hong Kong of approximately US$ 123,853 (2011: US$ 660,711), subject to the agreement of the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the Company arising in Hong Kong. The Group also had tax losses arising in Chile which were not recognised and amounted to US$39,830 (2011: Nil) as at the end of the reporting period, subject to the agreement of the Chilean National Tax Authority, that are available indefinitely for offsetting against future taxable profits of the Group arising in Chile.

Deferred tax assets have not been recognised in respect of these losses as the directors consider it uncertain that future taxable profits will be available to utilise the unused tax losses.

## 9. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 March 2012 includes a profit of US$735,470 (2011: US$314,778) which has been dealt with in the financial statements of the Company (note 17(b)).

## 10. PROPERTY, PLANT AND EQUIPMENT

Group

| | Leasehold improvements US$ | Furniture and fixtures US$ | Office equipment US$ | Total US$ |
|---|---|---|---|---|
| **31 March 2012** | | | | |
| At 31 March 2011 and at 1st April 2011 | | | | |
| Cost | – | 51,938 | 60,661 | 112,599 |
| Accumulated depreciation | – | (36,542) | (34,098) | (70,640) |
| Net carrying amount | – | 15,396 | 26,563 | 41,959 |
| At 1 April 2011, net of accumulated depreciation | – | 15,396 | 26,563 | 41,959 |
| Additions | 40,720 | 9,007 | 111 | 49,838 |
| Depreciation provided during the year | (1,150) | (13,252) | (14,165) | (28,567) |
| Exchange realignment | – | (28) | (143) | (171) |
| At 31 March 2012, net of accumulated depreciation | 39,570 | 11,123 | 12,366 | 63,059 |
| At 31 March 2012 : | | | | |
| Cost | 40,720 | 60,945 | 60,772 | 162,437 |
| Accumulated depreciation | (1,150) | (49,822) | (48,406) | (99,378) |
| Net carrying amount | 39,570 | 11,123 | 12,366 | 63,059 |

| | Leasehold improvements US$ | Furniture and fixtures US$ | Office equipment US$ | Total US$ |
|---|---|---|---|---|
| **31 March 2011** | | | | |
| At 1 April 2010 | | | | |
| Cost | 134,034 | 50,147 | 55,128 | 239,309 |
| Accumulated depreciation | (81,696) | (20,091) | (17,305) | (119,092) |
| Net carrying amount | 52,338 | 30,056 | 37,823 | 120,217 |
| At 1 April 2010, net of accumulated depreciation | 52,338 | 30,056 | 37,823 | 120,217 |
| Additions | 2,357 | 1,791 | 5,533 | 9,681 |
| Depreciation provided during the year | (51,307) | (16,646) | (17,783) | (85,736) |
| Exchange realignment | (3,388) | 195 | 990 | (2,203) |
| At 31 March 2011, net of accumulated depreciation | – | 15,396 | 26,563 | 41,959 |
| At 31 March 2011 : | | | | |
| Cost | – | 51,938 | 60,661 | 112,599 |
| Accumulated depreciation | – | (36,542) | ( 34,098) | (70,640) |
| Net carrying amount | – | 15,396 | 26,563 | 41,959 |

Company

| | Leasehold improvements US$ | Furniture and fixtures US$ | Office equipment US$ | Total US$ |
|---|---|---|---|---|
| **31 March 2012** | | | | |
| At 31 March 2011 and at 1 April 2011 | | | | |
| Cost | **–** | **49,375** | **46,824** | **96,199** |
| Accumulated depreciation | **–** | **(36,032)** | **(30,975)** | **(67,007)** |
| Net carrying amount | **–** | **13,343** | **15,849** | **29,192** |
| At 1 April 2011, net of accumulated depreciation | **–** | **13,343** | **15,849** | **29,192** |
| Additions | **40,720** | **9,007** | **–** | **49,727** |
| Depreciation provided during the year | **(1,150)** | **(12,783)** | **(11,213)** | **(25,146)** |
| At 31 March 2012, net of accumulated depreciation | **39,570** | **9,567** | **4,636** | **53,773** |
| At 31 March 2012 : | | | | |
| Cost | **40,720** | **58,382** | **46,824** | **145,926** |
| Accumulated depreciation | **(1,150)** | **(48,815)** | **(42,188)** | **(92,153)** |
| Net carrying amount | **39,570** | **9,567** | **4,636** | **53,773** |
| **31 March 2011** | | | | |
| At 1 April 2010 : | | | | |
| Cost | – | 47,584 | 42,072 | 89,656 |
| Accumulated depreciation | – | (19,825) | (15,912) | (35,737) |
| Net carrying amount | – | 27,759 | 26,160 | 53,919 |
| At 1 April 2010, net of accumulated depreciation | – | 27,759 | 26,160 | 53,919 |
| Additions | – | 1,791 | 4,752 | 6,543 |
| Depreciation provided during the year | – | (16,207) | (15,063) | (31,270) |
| At 31 March 2011, net of accumulated depreciation | – | 13,343 | 15,849 | 29,192 |
| At 31 March 2011 : | | | | |
| Cost | – | 49,375 | 46,824 | 96,199 |
| Accumulated depreciation | – | (36,032) | (30,975) | (67,007) |
| Net carrying amount | – | 13,343 | 15,849 | 29,192 |

## 11. INTANGIBLE ASSETS

| | Group | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Brandname | **5,524** | 5,524 |
| Merchandise license | **8,359** | - |
| Unlisted shares, at cost | **13,883** | 5,524 |

## 12. INVESTMENT IN A SUBSIDIARY

| | Company | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Unlisted shares, at cost | **225,000** | 225,000 |

The amount due from a subsidiary included in the Company's current assets ofUS$593,638 (2011: US$857,168) is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the Company's subsidiaries as at the end of the reporting period are as follows:

| **Name** | **Place of incorporation/ registration and operations** | **Nominal value of issued ordinary share capital** | **Percentage of equity attributable to the Company** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| PG Home Group Limited | Hong Kong | US$250,000 | 90 | – | Trading of home and garment products and investment holding |
| PG Home Group S.P.A. # | Chile | Chilean Pesos 3,000,000 | – | 90 | Sales and marketing |

\# Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

## 13. TRADE AND BILLS RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Trade receivables | **307,521** | 826,935 | **121,245** | 490,433 |
| Bills receivable | **468,228** | 574,478 | **366,989** | 34,886 |
| | **775,749** | 1,401,413 | **488,234** | 525,319 |

The Group's and the Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are non-interest-bearing and are on credit terms of 30 to 120 days. The Group and the Company seek to maintain strict control over their outstanding receivables and overdue balances are reviewed regularly by management. The Group and the Company do not hold any collateral or other credit enhancements over its trade receivable balances.

As at the end of the reporting period, all the Group's and the Company's trade and bills receivable balances were neither past due nor individually or collectively considered to be impaired, and these receivables related to a number of diversified customers for whom there was no recent history of default.

## 14. DUE FROM A RELATED COMPANY

Particulars of an amount due from a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

| **Name** | **31 March 2012 US$** | Maximum amount outstanding during the year US$ | 1 April 2011 US$ |
|---|---|---|---|
| Grupo Extremo SUR S.A. | **446,434** | 906,806 | 906,806 |

The related company held a 100% shareholding of GES Corp. HK Limited, a shareholder of the Company.

The amount due from a related company is unsecured, interest-free and has no fixed terms of repayment.

**15. DUE FROM DIRECTORS**

Particulars of the amounts due from directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

| Name | 31 March 2012 US$ | Maximum amount outstanding during the year US$ | 1 April 2011 US$ |
|---|---|---|---|
| Mr. Sebastian Felipe Berstein Jauregui | **196,000** | 196,000 | 196,000 |
| Mr. Yariv Guiloff Titelman | **215,000** | 215,000 | 215,000 |
| | **411,000** | | 411,000 |
| Amount classified as non-current | **–** | | (7,000) |
| Current | **411,000** | | 404,000 |

The amounts due from directors are unsecured, interest-free and have no fixed terms of repayment.

**16. SHARE CAPITAL**

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 1,000,000 ordinary shares of US$1 each | **1,000,000** | 1,000,000 |

**17. RESERVES**

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on page 9 of the financial statements.

(b) Company

| | Accumulated losses US$ |
|---|---|
| At 1 April 2010 | (1,250,808) |
| Total comprehensive income for the year | 314,778 |
| At 31 March 2011 and 1 April 2011 | (936,030) |
| Total comprehensive income for the year | 735,470 |
| At 31 March 2012 | (200,560) |

**18. OPERATING LEASE ARRANGEMENTS**

The Group and the Company lease office premises under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to three years.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Within one year | **135,314** | 237,932 |
| In the second to fifth years, inclusive | **159,415** | 120,997 |
| | **294,729** | 358,929 |

**19. RELATED PARTY TRANSACTIONS**

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group and the Company had the following material transactions with related parties during the year:

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| Fellow subsidiaries: | | | |
| Sales of goods | (i) | **977,548** | 444,967 |
| Managements fees received | (ii) | **55,534** | 83,940 |
| Immediate holding company: | | | |
| Management fees paid | (ii) | **28,429** | 7,184 |
| Interest paid | (iii) | **43,391** | – |
| A related company: | | | |
| Sales of goods | (i) | **12,371,598** | 9,016,532 |
| Commissions received | (iv) | **–** | 407,070 |
| Commissions paid | (v) | **877,127** | 426,364 |

Notes:

(i) The sales were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The management fees received and paid were charged at rates mutually agreed between the Group and the respective fellow subsidiaries or the immediate holding company.

(iii) The interest paid was charged at 4% per annum based on the month end balance of the amount due to the immediate holding company (note (b)(ii)).

(iv) The commissions received were related to sourcing services rendered and were charged at rates mutually agreed between the Group and the related company.

(v) The commissions paid were related to sourcing services received and were charged at rates mutually agreed between the Group and the related company.

(b) Outstanding balances with related parties:

(i) The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(ii) The amount due to the immediate holding company is unsecured, bears interest at 4% (2011: Nil) per annum and has no fixed terms of repayment.

**20. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Financial assets - loans and receivables | | |
| Trade and bills receivables | **775,749** | 1,401,413 |
| Financial assets included in prepayments, deposits and other receivables | **33,401** | 48,789 |
| Due from a fellow subsidiary | **138,316** | – |
| Due from a related company | **446,434** | 906,806 |
| Due from directors | **411,000** | 404,000 |
| Cash and cash equivalents | **672,243** | 679,287 |
| | **2,477,143** | 3,440,295 |

Financial liabilities - financial liabilities at amortised cost

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Trade and bills payables | **797,017** | 1,140,471 |
| Financial liabilities included in other payables accruals, and receipts in advance | **199,310** | 367,836 |
| Due to the immediate holding company | **1,250,000** | 2,400,348 |
| Due to fellow subsidiaries | **8,483** | 55,825 |
| | **2,254,810** | 3,864,480 |

Company

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Financial assets - loans and receivables | | |
| Trade and bills receivables | **488,234** | 525,319 |
| Financial assets included in prepayments, deposits and other receivables | **20,770** | 42,749 |
| Due from a subsidiary | **593,638** | 857,168 |
| Due from a fellow subsidiary | **138,316** | - |
| Due from a related company | **446,434** | 906,806 |
| Due from directors | **411,000** | 404,000 |
| Cash and cash equivalents | **358,717** | 476,474 |
| | **2,457,109** | 3,213,516 |

Financial liabilities - financial liabilities at amortised cost

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Trade and bills payables | **541,227** | 736,451 |
| Financial liabilities included in other payables and accruals | **126,156** | 269,991 |
| Due to the immediate holding company | **1,250,000** | 2,400,348 |
| Due to fellow subsidiaries | **8,483** | 55,825 |
| | **1,925,866** | 3,462,615 |

**21. FAIR VALUE**

At the end of the reporting period, the carrying amounts of the Group's financial assets and financial liabilities approximated to their fair values.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. The fair values of trade and bills receivables, deposits and other receivables, an amount due from a fellow subsidiary, an amount due from a related company, amounts due from directors, cash and cash equivalents, trade and bills payables, other payables and accruals, amounts due to fellow subsidiaries and an amount due to the immediate holding company approximated to their carrying amounts largely due to the short term maturities of these instruments.

The Group did not have any financial assets and liabilities measured at fair value as at the end of each reporting period.

**22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's exposure to credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Group's financial management policies and practices described below:

*Credit risk*

The carrying amounts of cash and cash equivalents, trade and bills receivables, deposits and other receivables, an amount due from a fellow subsidiary, an amount due from a related company and amounts due from directors represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's cash and cash equivalents are deposited with creditworthy banks with no recent history of default. The Group has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. The maximum exposure for trade and bills receivables is the carrying amount as disclosed in note 13 to the financial statements. At the end of the reporting period, the Group had certain concentrations of credit risks as 54% (2011: 51%) of the Group's trade and bills receivables were due from the Group's top five customers.

*Liquidity risk*

In the management of liquidity risk, the Group monitors and maintains a level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from group companies.

The Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, either have no fixed terms of repayment or are repayable within three months subsequent to the end of the reporting period.

*Capital management*

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to its shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 31 March 2011.

**23. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 March 2012.

**Principal activities**

The principal activities of the Company were the trading of home and garment products, and investment holding. The principal activity of the Company's subsidiary is set out in note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

**Results**

The Group's profit for the year ended 31 March 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 5 to 32.

**Property, plant and equipment**

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 11 to the financial statements.

**Reserves**

Details of movements in the reserves of the Company and the Group during the year are set out in note 16 to the financial statements and in the consolidated statement of changes in equity, respectively.

**Directors**

The directors of the Company during the year were:

Berstein Jauregui Sebastian Felipe

Deepak Kumar Seth

Guiloff Titelman Yariv

Mahesh Kumar Seth

Pallak Seth

Payel Seth

Vial Cerda Vicente

In accordance with the Company's articles of association, all directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

**Directors' interests**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its subsidiary or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**Directors' interests in contracts**

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its subsidiary or any of its holding companies or fellow subsidiaries was a party during the year.

**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**

Sd/-
Chairman
Hong Kong

18 May 2012

## Independent auditors' report

**To the shareholders of PG Home Group Limited**

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of PG Home Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 5 to 32, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated and company income statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012, and of the Company's profit and the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Sd/-
Certified Public Accountants
Hong Kong

18 May 2012

## CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **REVENUE** | 5 | **5,179,752** | 5,755,870 |
| Cost of sales | | **(4,241,017)** | (4,687,334) |
| Gross profit | | **938,735** | 1,068,536 |
| Other income | 5 | **13,910** | 10,452 |
| Administrative expenses | | **(862,324)** | (1,046,116) |
| Finance costs | 8 | **(22,318)** | (32,461) |
| **PROFIT BEFORE TAX** | 6 | **68,003** | 411 |
| Income tax expense | 9 | **–** | – |
| **PROFIT FOR THE YEAR** | | **68,003** | 411 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2012

| | 2012 US$ | 2011 US$ |
|---|---|---|
| PROFIT FOR THE YEAR | **68,003** | 411 |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Exchange differences on translation of foreign operations | **949** | (9,342) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | **949** | (9,342) |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | **68,952** | (8,931) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 March 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **9,286** | 12,767 |
| Intangible assets | 12 | **13,883** | 5,524 |
| Deposits | | **6,210** | 6,040 |
| Total non-current assets | | **29,379** | 24,331 |
| **CURRENT ASSETS** | | | |
| Trade and bills receivables | 14 | **287,515** | 876,094 |
| Deposits and prepayments | | **81,992** | 56,263 |
| Cash and cash equivalents | | **313,526** | 202,813 |
| Total current assets | | **683,033** | 1,135,170 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | | **255,790** | 404,020 |
| Other payables, accruals and receipts in advance | | **73,154** | 177,435 |
| Due to the immediate holding company | 18(b) | **593,638** | 857,168 |
| Total current liabilities | | **922,582** | 1,438,623 |
| **NET CURRENT LIABILITIES** | | **(239,549)** | (303,453) |
| Net liabilities | | **(210,170)** | (279,122) |
| **EQUITY** | | | |
| Issued capital | 15 | **250,000** | 250,000 |
| Reserves | | **(460,170)** | (529,122) |
| Net deficiency in assets | | **(210,170)** | (279,122) |

Sd/-
Deepak Kumar Seth
Director

Sd/-
Pallak Seth
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2012

| | Issued capital US$ | Exchange reserve US$ | Accumulated losses US$ | Net deficiency in assets US$ |
|---|---|---|---|---|
| At I April 2010 | 250,000 | ( 32,291) | ( 487,900) | ( 270,191) |
| Profit for the year | – | – | 411 | 411 |
| Other comprehensive loss for the year: | | | | |
| Exchange differences on translation of foreign operations | – | ( 9,342) | – | ( 9,342) |
| Total comprehensive loss for the year | – | (9,342) | 411 | ( 8,931) |
| At 31 March 2011 and at 1 April 2011 | 250,000 | ( 41,633) | ( 487,489) | ( 279,122) |
| Profit for the year | – | – | 68,003 | 68,003 |
| Other comprehensive income for the year: | | | | |
| Exchange differences on translation of foreign operations | – | 949 | – | 949 |
| Total comprehensive income for the year | – | 949 | 68,003 | 68,952 |
| At 31 March 2012 | 250,000 | ( 40,684)* | ( 419,486)* | ( 210,170) |

* These reserve accounts comprise the deficit reserves of HK$460,170 (2011: HK$529,122) in the consolidated statement of financial position.

## CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 March 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **68,003** | 411 |
| Adjustments for: | | | |
| Depreciation | 6 | **3,421** | 54,467 |
| Finance costs | 8 | **22,318** | 32,461 |
| | | **93,742** | 87,339 |
| Decrease in trade and bills receivables | | **588,579** | 38,415 |
| Increase in deposits and prepayments | | **(26,224)** | ( 35,482) |
| Increase/(decrease) in trade and bills payables | | **(148,230)** | 164,999 |
| Increase/(decrease) in other payables, accruals and receipts in advance | | **(103,649)** | 134,129 |
| Cash generated from operations | | **404,218** | 389,400 |
| Hong Kong profits tax paid | | **–** | ( 4,063) |
| Net cash flows from operating activities | | **404,218** | 385,337 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | 11 | **(113)** | (3,138) |
| Purchase of items of intangible asset | 12 | **(8,359)** | – |
| Net cash flows used in investing activities | | **(8,472)** | (3,138) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Decrease in an amount due to the immediate holding company | | **(261,706)** | (192,592) |
| Interest paid | | **(22,318)** | (32,461) |
| Net cash flows used in financing activities | | **(284,024)** | (225,053) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **111,722** | 157,146 |
| Cash and cash equivalents at beginning of year | | **202,813** | 41,380 |
| Effect of foreign exchange rate changes, net | | **(1,009)** | 4,287 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **313,526** | 202,813 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **313,526** | 202,813 |

## INCOME STATEMENT

Year ended 31 March 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **REVENUE** | 5 | **5,179,752** | 5,755,870 |
| Cost of sales | | **(4,241,017)** | (4,687,334) |
| Gross profit | | **938,735** | 1,068,536 |
| Other income | 5 | **13,910** | 3,732 |
| Administrative expenses | | **(862,544)** | (1,032,898) |
| Finance costs | 8 | **( 22,318)** | (32,461) |
| **PROFIT BEFORE TAX** | 6 | **67,783** | 6,909 |
| Income tax expense | 9 | **–** | – |
| **PROFIT FOR THE YEAR** | | **67,783** | 6,909 |

## STATEMENT OF FINANCIAL POSITION

31 March 2012

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| **NON-CURRENT ASSET** | | | |
| Investment in a subsidiary | 13 | 5,967 | 5,967 |
| **CURRENT ASSETS** | | | |
| Trade and bills receivables | 14 | 287,515 | 876,094 |
| Prepayments | | 68,157 | 40,952 |
| Due from a subsidiary | 13 | 268,979 | 254,001 |
| Cash and cash equivalents | | 250,637 | 142,889 |
| Total current assets | | 875,288 | 1,313,936 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | | 255,790 | 404,020 |
| Other payables, accruals and receipts in advance | | 37,492 | 132,163 |
| Due to the immediate holding company | 18(b) | 593,638 | 857,168 |
| Total current liabilities | | 886,920 | 1,393,351 |
| **NET CURRENT LIABILITIES** | | (11,632) | (79,415) |
| Net liabilities | | (5,665) | (73,448) |
| **EQUITY** | | | |
| Issued capital | 15 | 250,000 | 250,000 |
| Accumulated losses | | (255,665) | ( 323,448) |
| Net deficiency in assets | | (5,665) | (73,448) |

## NOTES TO FINANCIAL STATEMENTS

31 March 2012

### 1. CORPORATE INFORMATION

PG Home Group Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 9/F, Surson Commercial Building, 140-142 Austin Road, Tsim Sha Tsui, Kowloon, Hong Kong.

During the year, the Group was primarily engaged in the trading of home and garment products and investment holding.

The Company is a subsidiary of PG Group Limited, a company incorporated in Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Pearl Global Industries Limited (formerly known as House of Pearl Fashions Limited), a company incorporated in India with shares listed on the National Stock Exchange in India.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and are presented in United States dollars ("US$").

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary (collectively referred to as the "Group") for the year ended 31 March 2012. The financial statements of its subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of its subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain new and revised HKFRSs became effective for the first time during the current financial year but are not applicable to the Group, and accordingly, they have had no impact on the Group's financial statements for the year ended 31 March 2012.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the year ended 31 March 2012, in these financial statements. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of its subsidiary are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold improvements | Over the lease terms |
| Furniture and fixtures | 10% |
| Office equipment | 10% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

The Group's brandname and merchandise license are stated at cost less any impairment losses.

Operating 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 lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Financial instruments

*Financial assets*

The Group's financial assets are classified and accounted for as loans and receivables. Financial assets are recognised on the trade date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Any changes in their value are recognised in profit or loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

An assessment for impairment is undertaken at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Group will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

*Financial liabilities*

The Group's financial liabilities are classified and accounted for as financial liabilities at amortised cost. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, 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.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has 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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 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.

Employee benefits

*Retirement benefit costs*

The Group operates a mandatory provident fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Foreign currencies

These financial statements are presented in US$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair values were determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

The functional currency of an overseas subsidiary is a currency other than the US$. As at the end of the reporting period, the assets and liabilities of the subsidiary are translated into the presentation currency of the Company at the exchange rate ruling at the end of the reporting period, and the subsidiary's income statement is translated into US$ at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into US$ at the weighted average exchange rate for the year.

## 4. FINANCIAL SUPPORT

The ultimate holding company of the Group has confirmed its intention to provide continuing financial support to the Group, directly or through other group companies, so as to enable the Group to meet its liabilities as and when they fall due and to enable the Group to continue operating for the foreseeable future. Accordingly, the directors have prepared the financial statements on a going concern basis.

## 5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's and the Company's turnover, represents the net invoiced value of goods sold.

An analysis of other income is as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Compensation from suppliers for late shipments | **13,910** | 3,999 | **13,910** | 3,999 |
| Foreign exchange differences, net | **–** | 3,121 | **–** | (267) |
| Others | **–** | 3,332 | **–** | – |
| | **13,910** | 10,452 | **13,910** | 3,732 |

6. **PROFIT BEFORE TAX**

The Group's and the Company's profit before tax is arrived at after charging/(crediting):

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Auditors' remuneration | **11,799** | 11,568 | **11,799** | 11,568 |
| Depreciation | **3,421** | 54,467 | **–** | – |
| Minimum lease payments under operating leases of land and buildings | **33,411** | 44,685 | **33,411** | 44,685 |
| Staff costs (excluding directors' remuneration (note 7)): | | | | |
| Salaries and allowances | **193,956** | 218,476 | **193,956** | 218,476 |
| Pension scheme contributions (defined contribution scheme) | **6,925** | 7,201 | **6,925** | 7,201 |
| | **200,881** | 225,677 | **200,881** | 225,677 |
| Foreign exchange differences, net | **9,367** | ( 3,121) | **–** | 267 |

7. **DIRECTORS' REMUNERATION**

Director's remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

| | Group and Company | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Fees | **–** | – |
| Other emoluments: | | |
| Salaries and allowances | **176,092** | 173,181 |
| | **176,092** | 173,181 |

8. **FINANCE COSTS**

| | Group and Company | |
|---|---|---|
| | **2012 US$** | 2011 US$ |
| Interest on bank overdrafts | **–** | 15 |
| Interest on an amount due to the immediate holding Company (note 18(b)) | **22,318** | 32,446 |
| | **22,318** | 32,461 |

9. **INCOME TAX**

No provision for Hong Kong profits tax has been made (2011: Nil) as the Group and the Company have available tax losses brought forward from prior years to offset the assessable profits generated during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group and the Company operate.

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory tax rate of 16.5% (2011: 16.5%) to the tax amount at the effective tax rate is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2012 US$** | 2011 US$ | **2012 US$** | 2011 US$ |
| Profit before tax | **68,003** | 411 | **67,783** | 6,909 |
| Tax at the Hong Kong statutory tax rate | **11,220** | 68 | **11,184** | 1,140 |
| Income not subject to tax | **–** | ( 8,973) | **–** | – |
| Expenses not deductible for tax | **7,499** | 46,443 | **–** | 732 |
| Tax losses utilised from prior years | **(11,184)** | (1,872) | **(11,184)** | (1,872) |
| Effect of taxes elsewhere | **(7,535)** | (35,666) | **–** | – |
| Tax at the effective tax rate | **–** | – | **–** | – |

At the end of the reporting period, the Group and the Company had tax losses arising in Hong Kong of approximately US$123,853 (2011: US$191,636), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the Company arising in Hong Kong. The Group also had tax losses arising in Chile which were not recognised and amounted to US$39,830 (2011: Nil) as at the end of the reporting period, subject to the agreement by the Chilean National Tax Authority, that are available indefinitely for offsetting against future taxable profits of the Group arising in Chile.

Deferred tax assets have not been recognised in respect of these losses as the directors consider it uncertain that future taxable profits will be available to utilise the unused tax losses.

10. **PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT**

The consolidated profit attributable to owners of the parent for the year ended 31 March 2012 includes a profit ofUS$67,783 (2011: US$6,909) which has been dealt with in the financial statements of the Company (note 16(b)).

11. **PROPERTY, PLANT AND EQUIPMENT**

Group

| | Leasehold improvements US$ | Furniture and fixtures US$ | Office equipment US$ | Total US$ |
|---|---|---|---|---|
| **31 March 2012** | | | | |
| At 31 March 2011 and at 1 April 2011: | | | | |
| Cost | **–** | **2,563** | **13,837** | **16,400** |
| Accumulated depreciation | **–** | **(510)** | **(3,123)** | **(3,633)** |
| Net carrying amount | **–** | **2,053** | **10,714** | **12,767** |
| At 1 April 2011, net of accumulated depreciation | **–** | **2,053** | **10,714** | **12,767** |
| Additions | **–** | **–** | **113** | **113** |
| Depreciation provided during the year | **–** | **(469)** | **(2,952)** | **(3,421)** |
| Exchange realignment | **–** | **(28)** | **(145)** | **(173)** |
| At 31 March 2012, net of accumulated depreciation | **–** | **1,556** | **7,730** | **9,286** |
| At 31 March 2012: | | | | |
| Cost | **–** | **2,563** | **13,950** | **16,513** |
| Accumulated depreciation | **–** | **(1,007)** | **(6,220)** | **(7,227)** |
| Net carrying amount | **–** | **1,556** | **7,730** | **9,286** |

Group

| | Leasehold improvements US$ | Furniture and fixtures US$ | Office equipment US$ | Total US$ |
|---|---|---|---|---|
| **31 March 2011** | | | | |
| At 1 April 2010: | | | | |
| Cost | 134,034 | 2,563 | 13,056 | 149,653 |
| Accumulated depreciation | (81,696) | (266) | (1,393) | (83,355) |
| Net carrying amount | 52,338 | 2,297 | 11,663 | 66,298 |
| At 1 April 2010, net of accumulated depreciation | 52,338 | 2,297 | 11,663 | 66,298 |
| Additions | 2,357 | – | 781 | 3,138 |
| Depreciation provided during the year | (51,307) | (439) | (2,721) | (54,467) |
| Exchange realignment | (3,388) | 195 | 991 | (2,202) |
| At 31 March 2011, net of accumulated depreciation | – | 2,053 | 10,714 | 12,767 |
| At 31 March 2011: | | | | |
| Cost | – | 2,563 | 13,837 | 16,400 |
| Accumulated depreciation | – | (510) | (3,123) | (3,633) |
| Net carrying amount | – | 2,053 | 10,714 | 12,767 |

## 12. INTANGIBLE ASSETS

| | Group 2012 US$ | Group 2011 US$ |
|---|---|---|
| Brand name | **5,524** | 5,524 |
| Merchandise license | **8,359** | – |
| | **13,883** | 5,524 |

## 13. INVESTMENT IN A SUBSIDIARY

| | Company 2012 US$ | Company 2011 US$ |
|---|---|---|
| Unlisted shares, at cost | **5,967** | 5,967 |

The amount due from a subsidiary included in the Company's current assets ofUS$ 268,979 (2011: US$254,001) is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the Company's subsidiary as at the end of the reporting period are as follows:

| Name | Place of incorporation/ and operations | Nominal value of issued ordinary share capital | Percentage of equity attributable directly to the Company | Principal activities |
|---|---|---|---|---|
| PG Home Group S.P.A.# | Chile | Chilean Pesos 3,000,000 | 100 | Sales and marketing |

# Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

## 14. TRADE AND BILLS RECEIVABLES

| | Group and Company 2012 US$ | Group and Company 2011 US$ |
|---|---|---|
| Trade receivables | **186,276** | 336,502 |
| Bills receivable | **101,239** | 539,592 |
| | **287,515** | 876,094 |

The Group's and the Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are non-interest-bearing and are on credit terms of 30 to 60 days. The Group and the Company seek to maintain strict control over their outstanding receivables and overdue balances are reviewed regularly by management. The Group and the Company do not hold any collateral or other credit enhancements over its trade receivable balances.

As at the end of the reporting period, all the Group's and the Company's trade and bills receivable balances were neither past due nor individually or collectively considered to be impaired.

## 15. SHARE CAPITAL

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 250,000 ordinary shares ofUS$1 each | **250,000** | 250,000 |

## 16. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on page 8 of the financial statements.

(b) Company

| | Accumulated losses US$ |
|---|---|
| At 1 April 2010 | ( 330,357) |
| Total comprehensive income for the year | 6,909 |
| At 31 March 2011 and at 1 April 2011 | ( 323,448) |
| Total comprehensive income for the year | 67,783 |
| **At 31 March 2012** | **( 255,665)** |

## 17. OPERATING LEASE ARRANGEMENTS

The Group and the Company lease an office premises under an operating lease arrangement. The lease for this property is negotiated for a term of three years.

At the end of the reporting period, the Group and the Company had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Within one year | **49,581** | 42,723 |
| In the second to fifth years, inclusive | **16,527** | 76,101 |
| | **66,108** | 118,824 |

## 18. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group and the Company had the following material transactions with related parties during the year:

| | Notes | 2012 US$ | 2011 US$ |
|---|---|---|---|
| Commissions paid to the immediate holding company | (i) | **212,051** | 234,367 |
| Interest paid to the immediate holding company | (ii) | **22,310** | 32,446 |

Notes:

(i) The commissions paid were in relation to sourcing services received and were charged at terms mutually agreed between the Company and the immediate holding company.

(ii) The interest was charged at 4.2% per annum on an amount due to the immediate holding company.

(b) The amount due to the immediate holding company is unsecured, interest-bearing at 4.2% (2011: 4.2%) per annum and has no fixed terms of repayment.

## 19. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets - loans and receivables

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Trade and bills receivables | **287,515** | 876,094 |
| Financial assets included in deposits and prepayments | **12,631** | 6,040 |
| Cash and cash equivalents | **313,526** | 202,813 |
| | **613,672** | 1,084,947 |

Group

Financial liabilities - financial liabilities at amortised cost

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Trade and bills payables | **255,790** | 404,020 |
| Financial liabilities included in other payables, accruals and receipts in advance | **73,154** | 97,845 |
| Due to the immediate holding company | **593,638** | 857,168 |
| | **922,582** | 1,359,033 |

Company

Financial assets - loans and receivables

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Trade and bills receivables | **287,515** | 876,094 |
| Due from a subsidiary | **268,979** | 254,001 |
| Cash and cash equivalents | **250,637** | 142,889 |
| | **807,131** | 1,272,984 |

Company

Financial liabilities - financial liabilities at amortised cost

| | 2012 US$ | 2011 US$ |
|---|---|---|
| Trade and bills payables | **255,790** | 404,020 |
| Financial liabilities included in other payables, accruals and receipts in advance | **37,492** | 52,573 |
| Due to the immediate holding company | **593,638** | 857,168 |
| | **886,920** | 1,313,761 |

**20. FAIR VALUE**

At the end of the reporting period, the carrying amounts of the Group's financial assets and financial liabilities approximated to their fair values.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sale transactions. The fair values of trade and bills receivables, deposits, cash and cash equivalents, trade and bills payables, other payables and accruals and an amount due to the immediate holding company approximated to their carrying amounts largely due to the short term maturities of these instruments.

The Group did not have any financial assets and liabilities measured at fair value as at the end of each reporting period.

**21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's exposure to credit risk and liquidity risk arises in the normal course of its business. These risks are managed by the Group's financial management policies and practices described below:

*Credit risk*

The carrying amounts of cash and cash equivalents, trade and bills receivables, deposits and an amount due from a subsidiary, represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's cash and cash equivalents are deposited with creditworthy banks with no recent history of default. The Group has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. The maximum exposure for trade and bills receivables is the carrying amount as disclosed in note 14 to the financial statements. At the end of the reporting period, the Group had certain concentrations of credit risk as 95% (2011: 82%) of the Group's trade and bills receivables were due from the Group's top five customers.

*Liquidity risk*

In the management of liquidity risk, the Group monitors and maintains a level of working capital deemed adequate, and maintains a balance between continuity and flexibility of funding from group companies.

The Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, either have no fixed terms of repayment or are repayable within three months subsequent to the end of the reporting period.

*Capital management*

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 31 March 2011.

**22. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 18 May 2012.

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors
PEARL GES HOME GROUP S.P.A.

We have audited the accompanying balance sheets of PEARL GES HOME GROUP S.P.A. as of March 31st, 2012 and the related statements of income, changes in Equity and cash flow for the period between April 1st 2011 to March 31st 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements to March 31st 2011 were audited by other auditors which issued its unqualified report on April 10, 2011.

We conducted our audits in accordance with International auditing standards generally accepted. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of PEARL GES HOME S.P.A. as of March 31st, 2012 and income of its operations, the changes in Equity and its cash flows for the period the period between April 1st 2011 to March 31st 2012 in conformity with and International Financial Reporting Standards.

**Sd/-**
**Claudio Navarro Caviedes**

**Sd/-**
**Myriam Pérez Provoste**

**Pérez & Navarro**
**Auditores, Consultores Ltda**

Chile, Santiago, April 12, 2012

## BALANCE SHEETS AS OF MARCH 31ST, 2012 AND 2011

| **Assets** | **2012 Ch$** | 2011 Ch$ |
|---|---|---|
| Non current | | |
| Fixed assets | | |
| Equipment and Computers | **7,914,382** | 7,859,779 |
| Office furniture | **1,459,595** | 1,459,595 |
| Accumulated depreciation | **(4,826,214)** | (3,164,711) |
| **Total fixed assets** | **4,547,763** | 6,154,663 |
| Other assets | | |
| Deferred taxes | **6,541,563** | 3,203,227 |
| Intangible | **6,799,247** | 2,662,836 |
| Other assets | **3,041,632** | 2,911,938 |
| **Total other assets** | **16,382,442** | 8,778,001 |
| **Current** | | |
| Cash and equivalents | **30,800,705** | 28,888,221 |
| Sundry debtors | **6,185,963** | 6,318,716 |
| Prepaid income tax | **589,922** | 1,062,432 |
| **Total Current Assets** | **37,576,590** | 36,269,369 |
| **Total Assets** | **58,506,795** | 51,202,033 |
| **Liabilities and Equity** | | |
| **Equity** | | |
| Capital | **3,000,000** | 3,000,000 |
| Accumulated losses previous periods | **(14,140,744)** | (73,972,880) |
| Profit (loss) for the period | **(17,891,829)** | 59,832,136 |
| **Total Equity** | **(29,032,573)** | (11,140,744) |
| **Current Liabilities** | | |
| Suppliers | **4,571,712** | 1,233,277 |
| Accounts payable to related companies | **70,073,508** | 40,517,829 |
| Sundry credits | **9,284,973** | 16,758,616 |
| Withholdings | **3,609,175** | 3,833,055 |
| **Total Current Liabilities** | **87,539,368** | 62,342,777 |
| **Total Liabilities and Equity** | **58,506,795** | 51,202,033 |

## STATEMENTS OF INCOME FOR THE PERIODS BETWEEN APRIL 1st 2011 TO MARCH 31st 2012, AND APRIL 1st 2010 TO MARCH 31st 2011

| **Income** | **2012 Ch$** | 2011 Ch$ |
|---|---|---|
| **Operational income:** | | |
| Advisories | **47,146,995** | 78,601,401 |
| Administrative expenses reimbursements | | – |
| **Non operational income:** | | |
| Exchange rate difference | **–** | 76,005,970 |
| **Total income** | **47,146,995** | 154,607,371 |
| **Expenses** | | |
| Administrative expenses | **(51,493,808)** | (83,420,210) |
| Exchange rate | **(16,883,352)** | |
| **Total expenses** | **(68,377,160)** | (83,420,210) |
| **Net result before income tax** | **(21,230,165)** | 71,187,161 |
| Deferred taxes | **3,338,336** | (11,355,025) |
| **Profit (loss) for the period** | **(17,891,829)** | 59,832,136 |

## STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS BETWEEN APRIL 1st 2011 TO MARCH 31st 2012, AND APRIL 1st 2010 TO MARCH 31st 2011

| | **2012 Ch$** | 2011 Ch$ |
|---|---|---|
| **Capital** | | |
| Paid- in capital at the beginning of period | **3,000,000** | 3,000,000 |
| Capital increase during the period | **-** | - |
| **Total Capital at the end of the period** | **3,000,000** | 3,000,000 |
| Accumulated losses at the beginning of period Loss for the previous period | **(14,140,744)** | (73,972,880) |
| Profit (loss) for the current period | **(17,891,829)** | 59,832,136 |
| **Total accumulated losses** | **(32,032,573)** | (14,140,744) |
| **Total Equity at the end of period** | **(29,032,573)** | (11,140,744) |

## STATEMENTS OF CASH FLOW (INDIRECT METHOD) FOR THE PERIODS BETWEEN APRIL 1st 2011 TO MARCH 31st 2012, AND APRIL 1st 2010 TO MARCH 31st 2011

| | **2012 Ch$** | 2011 Ch$ |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit (Loss) for the period | **(17,891,829)** | 59,832,136 |
| Debits (credits) that do not represent cash flow Depreciation | **1,661,503** | 27,285,453 |
| Income tax | **(3,338,336)** | 11,355,025 |
| Exchange rate difference | **16,883,352** | (76,005,970) |
| Assets variations (increase)-decrease | | |
| Sundry debtors and others | **(605,263)** | (2,961,015) |
| Liabilities variations (decrease)-increase | | |
| Suppliers and others | **(3,278,256)** | 6,862,473 |
| **Total operational cash flow** | **(6,568,829)** | 26,368,102 |
| **Cash flow from investing activities** | | |
| Investments in fixed assets and intangibles | **(4,191,014)** | (1,211,014) |
| **Total cash flow from investing activities** | **(4,191,014)** | (1,211,014) |
| **Cash flow from Financing Activities** | | |
| Loans from related parties | **261,686,436** | 290,124,915 |
| Payment to related parties | **(249,014,109)** | (300,016,944) |
| **Total flow from financing activities** | **12,672,327** | (9,892,029) |
| **Net cash flow for the period** | **1,912,484** | 15,265,059 |
| **Cash and equivalents at beginning of period** | **28,888,221** | 13,623,162 |
| **Cash and equivalents at the end of period** | **30,800,705** | 28,888,221 |

## NOTES TO FINANCIAL STATEMENTS

1. **Company constitution**

PEARL GES HOME GROUP S.P.A. was constituted by public deed dated July 31st, 2008 as a commercial entity for consulting and market research. Its legal address is Avenida del Valle Nº 4980, office Nº 131, Huechuraba, Santiago. Its main operations are: developing advisory activities, related with market and design professional advisory services.

2. **Summary of Significant Accounting Policies**

a) **General:**

The Financial Statements have been prepared in accordance to the International Financial Reporting Standards. The accounting periods comprise since April 1st 2012 to March 31st, 2012 and April 1st 2011 to March 31st , 2012.

b) **Cash and cash equivalent definition:**

For purposes of the statement of cash flow, the Company considers all investments with a maturity of three months or less to be cash equivalents. In both periods, at the closing of the financial statements, there are no items to be considered cash equivalents.

c) **Bad debts:**

The Company has considered not necessary to constitute allowance for bad debts.

d) **Income Taxes and Deferred Taxes:**

In both periods, the company has accounted the deferred taxes, determined on basis in the accumulated tax losses and the differences between the accounting and taxable net income, in accordance to the income tax regulations in force in Chile. The effects of the Changes in the income tax rate are accounted by these purposes in the period when the law modification enters in force.

e) **Fixed assets and equipment:**

Equipment, furniture and fixed assets in general have been accounted at their acquisition cost. The depreciation has been calculated using the straight-line method, according to the useful lives defined in the instructions from the parent company, taking into account the residual values equal to 10% of the initial purchase price, as applicable.

The premises refitting item comprises the costs related with the local office implementation, which is under operating lease. These costs are depreciated in accordance to the remaining lease contract periods.

f) **Vacation provision and other accrued costs:**

The Company has accounted a provision for the accrued cost of vacations and other employee benefits. Provisions have also been established for costs accrued at the close of the financial statements for which no invoice or supporting documentation had yet been received. These provisions are shown in the sundry credits item.

g) **Functional Currency:**

These financial statements are expressed in Chilean Pesos. This functional currency has been defined by the Company in accordance that the most significant flows and transactions in Chile are expressed in that Chilean Pesos. The exchange rate applied to convert the US, Dollars balances at the end of the current period, was Ch.$ 522.62 for each US Dollar as of March 31st, 2012.

h) **Recognition of operating income:**

The Company recognizes the operating income (services) in accordance to the completion percentage. Since 2011 the Company is developing advisory activities, related with market and design professional advisory services, to its parent company. These incomes are accounted in accordance to the previously explained criteria.

i) **Administrative expenses reimbursements:**

Since November 2009, the company has subscribed an agreement with its parent company in order to obtain the reimbursement of certain administrative expenses, paid during this year. The refunds of those expenses obtained for this concept are shown deducting the operational income and administrative expenses.

j) **Compensation to personnel for years of service:**

This provision was made for this concept due the Company has agreed this benefit with its main staff.

k) **Intangible:**

This item comprises the trade brands that belong to the company and to its parent company, which are registered for that purpose in Chile. This item comprises also, the cost of the merchandise licenses, acquired by the Company. These assets are accounted to their cost which does not exceed their realizable value.

3. **Accounting Changes**

There were no accounting Changes in both periods.

4. **Income Taxes and Deferred Taxes**

a) **As of March 31st, 2012**

1) In the period April 1st, 2011 to March 31st, 2012 the company determined a taxable loss of Ch.$ 19,343,665 which determines an accumulated tax loss for an amount of Ch.$ 35,359,798 and a credit to results for an amount of Ch.$ 3,338,336 to that closing date, in accordance to the following detail:

| | Gross amount Ch.$ | Deferred tax Ch.$ |
|---|---|---|
| Determination of the deferred tax net effect on results for the period | | 18.5% |
| Tax loss for the period April 1 to March 31, 2012 | 35,359,798 | 6,541,563 |
| **Total accumulated asset to March 31, 2012** | | **6,541,563** |

For the current tax year (January to December 2012) the income tax rate has been decreased from 20% to 18.5%. In 2013 that rate will return to 17%, as the same as previous years. These are temporary changes in the tax rate, established by the Chilean Government as a way to increase the fiscal funds required to finance the earthquake that affected the country in 2010.

2) The accumulated assets and liabilities to March 31st 2012 are the following:

| | **2012 Ch.$** |
|---|---|
| Accumulated tax loss | **6,541,563** |
| **Total** | **6,541,563** |

3) Reconciliation between the nominal tax rate and the effective tax rate, for the period April 1st 2011, to March 31st, 2012

| | **Ch.$** |
|---|---|
| Net income before income tax | **(21,230,165)** |
| Nominal tax rate | **18.5%** |
| Net nominal credit to results for the period, due to income tax, | **3,927,581** |
| Net effective credit to results for the period, due to income tax | **3,338,336** |
| **Effective tax rate** | **15.7%** |

b) **As of March 31st, 2011**

In the period April 1st, 2010 to March 31st, 2011 the company determined a taxable profit of Ch.$ 73,716,578..- As a result of applying the accumulated tax loss to March 31st, 2011 represents an accumulated tax loss Ch.$ 16,016,133, which determines an accumulated net deferred tax for an amount of Ch.$ 3,203,227 to that closing date.

For the current year (2011) the income tax rate has been increased from 17% to 20%. In 2012 the income tax rate will be decreased to 18.5% and from 2013 that rate will return to 17%, as the same as previous years. These are temporary increases, established by the Chilean Government as a way to increase the fiscal funds required to finance the earthquake that affected the country in 2010.

c) **The accumulated assets and liabilities due to deferred taxes are the following in both periods:**

| | 2011 Ch.$ |
|---|---|
| Accumulated tax loss | 3,203,227 |
| **Total** | **3,203,227** |

d) **Reconciliation between the nominal tax rate and the effective tax rate For the period between April 1st 2010 to March 31st, 2011**

| | **Ch.$** |
|---|---|
| Net profit before income tax, for the period | **71,187,161** |
| Less: | |
| Accelerated depreciation premises refitting | **(4,325,510)** |
| Income tax rate | **20%** |
| Income tax profit for the period | **(11,355,025)** |
| Effective tax rate | **15.96%** |

5. **Intercompany balances and transactions**

a) **Balances**

1) **As of March 31st, 2012**

| | Initial | Transactions | | Final |
|---|---|---|---|---|
| | Balance | Transfer of funds | Collect of funds and reimbursements | Balance |
| Accounts payable | Ch$ | Ch$ | Ch$ | Ch.$ |
| Pearl Ges Home Group Limited | 40,517,829 | 261,186,436 | 233,025,604 | 68,678,661 |
| **Total** | **40,517,829** | **261,186,436** | **233,025,604** | **68,678,661** |

2) **As of March 31st, 2011**

| | Initial Balance | Transfer of funds | Collect of funds and reimbursements | Final Balance |
|---|---|---|---|---|
| Accounts payable | Ch$ | Ch$ | Ch$ | Ch.$ |
| Pearl Ges Home Group Limited | 126,415,838 | 290,124,915 | (376,022,924) | 40,517,829 |
| **TOTAL** | **126,415,838** | **290,124,915** | **(376,022,924)** | **40,517,829** |

Note 1: The expenses reimbursed are expressed in Chilean Pesos. Its conversion to United States Dollars is presented only for referential purposes.

b) **Design professional advisory agreement**

On 1st day of November 2009 the parent company PEARL GES HOME GROUP LIMITED, and Pearl Ges Home Group S.P.A. have subscribed a market and design professional advisory agreement. This document establishes the following:

a) To assist the performance of each transaction that is made or could probably be made by PGHGL within the Chilean and South American market, in particular with respect to the determination of home décor products pursuant consumer's requirements.

b) To provide specialized advisory services to implement and develop a local strategic planning for the relevant market.

c) To provide assistance in furnishing and designing of catalogues for collections of home décor products to serve the regional market.

d) To provide assistance with respect to sampling, publicity, promotion and introduction and marketing of new products in the market.

e) To provide advisory services in the development and implementation of introduction and stay of new home décor products within the market.

f) To provide advisory services relating to purchase techniques and procedures as well as the development of suppliers, inventory keeping, among others, taking into account for these purposes the production methods and techniques used by other companies within the same industry.

Furthermore, in accordance with that agreement PEARL GES HOME GROUP LIMITED, shall solely bear and reimburse to Pearl Ges Home Group S.P.A. the following costs:

a) Employee costs

b) Expenses relating to Travel

c) Sampling and courier costs

On a monthly basis, Pearl Ges Home Group S.P.A. Chile shall deliver to its Parent Company a written statement itemizing above cost and expenses.

Parties agree to fix the service fees as the resulting sum of costs and expenses (excluding costs referred above) incurred by PGHG Chile to support services provided herein with a 2% accrued margin.

c) **Expenses reimbursements**

In accordance to the referred agreement, the following are the details of the expenses reimbursements for the period April 1st 2011 to March 31st, 2012:

| | 2012 Ch$ |
|---|---|
| Salaries | 152,475,683 |
| Gratification | 6,699,682 |
| Pension plan | 4,437,966 |
| Vacations | 12,924,730 |
| Bonus | 997,977 |
| Mobilization | 601,366 |
| Quittance | 2,215,842 |
| Air tickets | 9,078,001 |
| Hotel expenses | 4,973,866 |
| Travel allowances | – |
| Freights | 3,941,542 |
| Samples expenses | 1,266,176 |
| Office maintenance | 2,430,420 |
| **Total** | **202,043,251** |

6. **Equity changes**

The Changes in the Equity occurred in both periods are the following:

a) **As of March 31st, 2011:**

| **As of 31st, 2012** | Capital Ch$ | Accumulated losses Ch$ | Profit for the period Ch$ | Total Ch$ |
|---|---|---|---|---|
| Balance at the beginning of period | 3,000,000 | (73,972,880) | 59,832,136 | (11,140,744) |
| Reclassification profit previous period | – | 59,832,136 | (59,832,136) | – |
| Profit for the period | – | – | (17,891,829) | (17,891,829) |
| **Balance at the end of the period** | **3,000,000** | **(14,140,744)** | **(17,891,829)** | **(29,032,573)** |

b) **As of March 31st, 2011**

| | Capital Ch$ | Accumulated losses Ch$ | Profit for the period Ch$ | Total Ch$ |
|---|---|---|---|---|
| Balance at the beginning of period | 3,000,000 | (169,559,552) | 95,586,672 | (70,972,880) |
| Reclassification profit previous period | – | 95,586,672 | (95,586,672) | – |
| Profit for the period | – | – | 59,832,136 | 59,832,136 |
| **Balance at the end of the period** | 3,000,000 | (73,972,880) | 59,832,136 | (11,140,744) |

The capital is comprised by 1,000 shares, fully paid. There were not share transactions during the periods April 1st to March 31st, 2012 and 2011,

7. **Commitments and Contingencies**

There are not judgments, contingencies or litigations, which could affect the company.

8. **Provisional monthly payments**

In both periods this item comprises the provisional monthly payments, which will be applied to the annual income tax. Their balances have amounted to Ch. $ 589,922 and Ch. $ 1,062,432 as of March 31st, 2012 and 2011 respectively.

This prepayment to the annual income tax is determined based in a percentage of the taxable gross income, applied to the average gross income of the previous three months.

**9. Administrative Expenses**

The detail of the administrative expenses item for the period April 1st 2011 to March 31st, 2012 is the following:

| | April 1st 2011 to March 31st 2012 Ch$ |
|---|---:|
| Rent Office | 15,774,150 |
| Accounting Fees | 12,526,898 |
| Office community spendings | 3,339,313 |
| Office and cleaning expenses | 3,676,795 |
| Telephone-Internet | 2,708,869 |
| Subscriptions | 1,670,991 |
| Attention consumptions | 1.474.331 |
| Depreciation Expenses | 1,661,503 |
| Fees | 1,404,454 |
| Electricity consumption | 1,300,934 |
| Professional advisings | 975,012 |
| Legal Fees | 430,000 |
| Inssurances | 387,805 |
| Banking commisions | 283,414 |
| Rent Parking | 323,587 |
| Security | 314,806 |
| Mobilization | 420,694 |
| Water consumption | 183,948 |
| Notarials expenses | 119,870 |
| License county | 154,493 |
| Banking expenses | 90,034 |
| Post office | 10,340 |
| Interests, fines | 22,892 |
| Equipment repairs | 68,222 |
| Readjustments | (45,389) |
| Other expenses | 2,215,842 |
| **TOTAL** | **51,493,808** |

**10. Lease contracts**

**a) 2012**

The main lease contract subscribed by the Company since July 2011 corresponds to the office where the commercial activities are performed. The summary of main clauses of that contract is the following:

- Location of premise: Avenida del Valle Nº 4,980 offices Nº 131 and 132, Huechuraba, Santiago de Chile.
- Name of Landlord: Inversiones Los Sauzales Ltda.
- Contract term: Three years, period from August 1st 2011 to July 31st, 2013.
- Monthly Rent: Period from August 1st 2011 to July 31st 2012: UF, 60 plus V.A.T. Approximately Th. Ch. $ 1,351, Period from August 1st 2012 to July 31st 2013: UF 90, approximately Th. Ch. $ 2,027. The “unidades de fomento” is a local currency which value Changes every day in accordance to the inflation rate.
- Break clauses:
  - Not paying the monthly rent on time.
  - Using the property to a use other than that set out in the lease.
  - Do not keep the property in good condition.
  - Late or not payment of the costs of property use (electricity, etc.)

**b) 2011**

The main lease contract subscribed by the Company corresponds to the office where the commercial activities are performed. The summary of main clauses of that contract is the following:

- Location of premise: Avenida del Valle Nº 869, Huechuraba, Santiago de Chile.
- Name of Landlord: Grupo Extremo Sur S.A. In this case is a sub–lease, considering that the premise is leased by “Grupo Extremo Sur S.A.” to other company.
- Monthly Rent: UF, 111.98 plus V.A.T. Approximately Th. Ch. $ 2,401 plus V.A.T. (This tax rate is 19%) The “unidades de fomento” is a local currency which value changes every day in accordance to the inflation rate.
- Break clauses:
  - Not paying the monthly rent on time.
  - Using the property to a use other than that set out in the lease.
  - Do not keep the property in good condition.
  - Late or not payment of the costs of property use (electricity, etc.)
  - To make changes or improvements in the physical property without the permission of the landlord.

The lease contract also establishes that improvements or changes in the physical structure of the property made by the lessee will be owned by the landlord.

For effects of the earthquake in March 2010, the Local Management of the Company has agreed with the landlord to postpone the increase in the monthly rental fee, that would be applied from August 2011, due to there exist pending repairs to the building.

The local Management estimates that since May 2012 the rental should be increased to the amount established in the contract for this period.

**11. Compensation to personnel for years of service**

Due the Company has not agreed this benefit with its main staff; consequently no provision has been accounted a provision for this concept.

**12. Fixed assets and intangibles**

a) The composition of these items to March 31st, 2012 is the following:

| Account | Leasehold Improvement Ch$ | Furniture & Fixtures Ch$ | Office Equipment Ch$ | Brand Ch$ | Total Ch$ |
|---|---:|---:|---:|---:|---:|
| Cost | | | | | |
| Initial balance to 31.3.2010 | 76,177,733 | 1,459,595 | 7,468,301 | 1,843,300 | 86,948,929 |
| Plus: | | | | | |
| Write-off | (76,177,733) | | | | (76,177,733) |
| Acquisitions for the period | | | 391,478 | 819,536 | 1,211,014 |
| Balance to 31.03.2011 | – | 1,459,595 | 7,859,779 | 2,662,836 | 11,982,210 |
| Plus: | | | | | |
| Movements for the period April 1st, 2011 to March 31st, 2012 | | | | | |
| Write –off | – | – | – | – | – |
| Acquisitions | – | – | 54,603 | 4,136,411 | 4,191,014 |
| Balance to March 31,2012 | – | 1,459,595 | 7,914,382 | 6,799,247 | 16,173,224 |
| Less: | | | | | |
| Accumulated depreciation | | | | | |
| Initial balance to 31.3.2010 | 50,475,249 | 250,024 | 1,331,718 | | 52,056,991 |
| Net depreciation for the period | 25,702,484 | 219,977 | 1,362,992 | – | 27,285,453 |

| Account | Leasehold Improvement | Furniture & Fixtures | Office Equipment | Brand | Total |
|---|---|---|---|---|---|
| | Ch$ | Ch$ | Ch$ | Ch$ | Ch$ |
| Write-off | (76,177,733) | – | – | – | (76,177,733) |
| Balance to 31.3.2011 | – | 470,001 | 2,694,710 | – | 3,164,711 |
| Less: | | | | | |
| Movements for the period April 1, 2011 to March 31, 2012 | | | | | |
| Net depreciation for the period | | 227,783 | 1,433,720 | – | 1,661,503 |
| Write-off | | – | – | – | – |
| Total accumulated depreciation to March 31, 2012 | – | 697,784 | 4,128,430 | – | 4,826,214 |
| Net book value to March 31, 2012 | – | 761,811 | 3,785,952 | 6,799,247 | 11,347,010 |

b) The composition of these items to March 31st, 2011 is the following:

| Account | Leasehold Improvement | Furniture & Fixtures | Office Equipment | Brand | Total |
|---|---|---|---|---|---|
| | Ch$ | Ch$ | Ch$ | Ch$ | Ch$ |
| Cost | | | | | |
| Initial balance to 31.3. 2010 | 76,177,733 | 1,459,595 | 7,468,301 | 1,843,300 | 86,948,929 |
| Additions | | | | | |
| Write-off | (76,177,733) | – | – | – | (76,177,733) |
| Acquisitions for the period | – | – | 391,478 | 819,536 | 1,211,014 |
| Balance to 31.3.2011 | – | 1,459,595 | 7,859,779 | 2,662,836 | 11,982,210 |
| Accumulated depreciation | | | | | |
| Initial balance to 31.3.2010 | 50,475,249 | 250,024 | 1,331,718 | – | 52,056,991 |
| Net depreciation for the period | 25,702,484 | 219,977 | 1,362,992 | – | 27,285,453 |
| Write-off | (76,177,733) | – | – | – | (76,177,733) |
| Balance to 31.3.2011 | – | 470,001 | 2,694,710 | – | 3,164,711 |
| Net book value to March 31, 2011 | – | 989,594 | 5,165,069 | 2,662,836 | 8,817,499 |

c) **Intangibles**

| | 2012 Ch.$ | 2011 Ch.$ |
|---|---|---|
| Brands | **2,662,836** | 2,662,836 |
| Merchandise licenses (1) | **4,136,411** | – |
| **Total** | **6,799,247** | 2,662,836 |

1) The Company has subscribed a merchandise license agreement, in order to perform locally a new business line.

**13. Sundry credits**

The composition of these items in both periods is the following:

| | 2012 Ch.$ | 2011 Ch.$ |
|---|---|---|
| Salaries to be paid | **–** | 9,824,352 |
| Provisional Monthly payment to be paid | **35,863** | 34,347 |
| Vacations provision | **6,571,692** | 6,354,917 |
| Accrued expenses | **2,677,418** | 545,000 |
| Total | **9,284,973** | 16,758,616 |

**14. Income statement for the last quarter:**

The composition of the income statement for these periods is the following:

| | January 1st to March 31st, 2012 | January 1st to March 31st, 2011 |
|---|---|---|
| Income | | |
| Operational income: | | |
| Advisories | **9,538,865** | 10,886,257 |
| Non operational income: | | |
| Exchange rate difference | **3,604,660** | – |
| Total income | **13,143,525** | 10,886,257 |
| Expenses | | |
| Administrative expenses | **(13,462,417)** | (9,482,800) |
| Exchange rate | **–** | (593,701) |
| Total expenses | **(13,462,417)** | (10,076,501) |
| Net result before income tax | **(318,892)** | 809,756 |
| Deferred taxes | **(878,997)** | 68,553 |
| Profit (loss) for the period | **(1,197,889)** | 878,309 |

**15. Subsequent events**

No events had subsequently occurred by the date of these financial statements that might materially impact the content or presentation of the financial statements,

# NOTES

## NOTES

# PEARL GLOBAL INDUSTRIES LIMITED

Registered Office : "Pearl House", A-3, Community Centre, Naraina Industrial Area, Phase-II, New Delhi-110028

## ATTENDANCE SLIP

| | |
|---|---|
| Folio No. | |
| DP ID | |
| Account ID / Client ID | |
| No. of Shares | |

I hereby record my presence at the **23rd ANNUAL GENERAL MEETING** of the Company held on Wednesday, 19th September, 2012 at 11:00 A. M. at Shri Sathya Sai International Centre, Pragati Vihar (Near Pragati Vihar Hostel), Lodhi Road, New Delhi-110 003.

| | |
|---|---|
| Signature of the attending Member / Proxy | |

**Note :** 1) A Shareholder/Proxy holder wishing to attend the meeting must bring the Attendance Slip to the meeting and hand it over at the entrance duly signed.

2) A Shareholder/Proxy holder wishing to attend the meeting should bring his copy of the Annual Report for reference at the meeting.


# PEARL GLOBAL INDUSTRIES LIMITED

Registered Office : "Pearl House", A-3, Community Centre, Naraina Industrial Area, Phase-II, New Delhi-110028


## PROXY

I/We ........................................................................................................ of ........................................................................................................

In the district of ........................................................................................................ being a Member //Members of the above named Company,

hereby appoint.............................................................................................. of ........................................................................................................

in the district of ........................................................................................ or failing him/her ........................................................................................

of ........................................................................................................ in the district of ........................................................................................

as my / our Proxy to attend and vote for me/us and on my/our behalf at **23rd ANNUAL GENERAL MEETING** of the Company held on Wednesday, 19th September, 2012 at 11:00 A. M. at Shri Sathya Sai International Centre, Pragati Vihar (Near Pragati Vihar Hostel), Lodhi Road, New Delhi-110 003, and at any adjournment thereof.

Signed this .................. day of ...................... 2012.

| | |
|---|---|
| Folio No. | |
| DP ID | |
| Account ID / Client ID | |
| No. of Shares | |

Signature ____________________ Affix Re. 1.00 Revenue Stamp ______________

**Note :** 1) The Proxy must be returned so as a reach the Registered Office at "Pearl House", A-3, Community Centre, Naraina Industrial Area, Phase-II, New Delhi-110028, not less than FORTY EIGHT HOURS before the time for holding the aforesaid meeting.

2) A Proxy need not to be a Member of the Company.

PearlGlobal

**Registered Office**
A-3, Community Centre,
Naraina Industrial Area, Phase-II,
New Delhi-110 028

**Corporate Office**
Plot No. - 446, Udyog Vihar, Phase-V,
Gurgaon-122 016 (Haryana)