1. GENERAL INFORMATION AND GROUP REORGANISATION

The Company was incorporated in Bermuda on 7 November 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended).

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire share capital of Fortress Ocean Limited and thereby became the holding company of the Group on 12 June 2002. Details of the Group Reorganisation are set out in the Company's prospectus dated 21 June 2002. The Group Reorganisation involved companies under common control and the Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared on a merger accounting basis according to Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants.

The Company's shares were successfully listed on the Stock Exchange on 3 July 2002.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of footwear products. Details of the principal activities of the 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.

The directors consider the ultimate holding company to be Info Fortune Holdings Limited, a company incorporated in the British Virgin Islands.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 18 to 45 are prepared in accordance with and comply with all applicable SSAPs and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the rules governing the listing of securities on the Stock Exchange (the "Listing Rules"). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

No balance sheet of the Company as at 30 September 2001 is presented in the financial statements as the Company was not yet incorporated on that date.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

The Group has adopted SSAP 1 (revised) "Presentation of financial statements" and SSAP 15 (revised) "Cash flow statements" in advance of their respective effective dates. SSAP 1 (revised) and SSAP 15 (revised) do not deal with measurement issues, but rather establish principles for reporting the statement of changes in equity and the classification of cash flows from operating, investing and financing activities in the cash flow statements respectively. The early adoption of SSAP 1 (revised) and SSAP 15 (revised) has not had any effect on the results reported in the current year.

(b) Basis of consolidation

The Group Reorganisation referred to in note 1 above has been accounted for using merger accounting, by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 September each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(d) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the cost or valuation of property, plant and equipment less their residual value, being 10% of the cost or valuation, over their estimated useful lives, using the straight line method, at the following rates per annum:

Plant and machinery	10%
Equipment and furniture	20%
Motor vehicles	20%
Buildings	Over the shorter of the terms of the leases or the estimated useful lives. The principal annual rate used is 5%.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

(i) Depreciation and amortisation (Continued)

Leasehold land is amortised over the remaining unexpired period of the lease or its estimated useful life to the Group, whichever is shorter. The principal annual rate used is 2%.

(ii) Measurement bases

Property, plant and equipment, other than land and buildings, are stated at cost less accumulated depreciation and amortisation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to the working condition and location for its intended use.

Land and buildings are stated at valuation less accumulated depreciation and amortisation and impairment losses.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

Surplus arising on revaluation of property, plant and equipment is credited to assets revaluation reserve. A decrease in net carrying amount arising on revaluation is charged to the income statement to the extent that this exceeds the surplus, if any, held in assets revaluation reserve relating to the previous revaluation of the same item of assets. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement. Any revaluation surplus relating to the assets under disposal is transferred to retained profits.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, computed using the weighted average method, and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less further costs of completion and the estimated costs necessary to make the sale.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investments

Investments in debt securities that the Group has the expressed intention and ability to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised costs less any provisions for impairment losses. Provisions for impairment losses are made and charged to the income statement when the carrying value of the held-to-maturity securities is not expected to be recovered.

The gain or loss on disposal of held-to-maturity securities, being the difference between the net sales proceeds and the carrying amount of the securities, is accounted for in the period in which the disposal occurs.

(g) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK$1,000 per month, 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.

According to the relevant rules and regulations in the People's Republic of China ("PRC"), each of the Company's subsidiaries operating in the PRC is required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of the employees, at 10% to 17%, to the PRC RB Plan. The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. Contributions under the PRC RB Plan are charged to the income statement as they become payable in accordance with the rules of the PRC RB Plan.

(j) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated income statement.

On consolidation, the balance sheets of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Exchange differences arising are dealt with as movement in exchange reserve.

(k) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

(l) Recognition of revenue

Revenue from the sale of goods is recognised when the goods are dispatched to the customers.

Interest income is recognised on a time proportion basis.

3. TURNOVER AND REVENUE

The Group is principally engaged in the design, manufacture and sale of footwear products.

Turnover represents total invoiced value of goods sold, net of sales tax.

An analysis of the Group's turnover and revenue is as follows:

	2002 *HK$'000*	2001 *HK$'000*
Turnover	433,536	310,362
Other revenue		
Profit from trading of raw materials	767	3,772
Bank interest income	136	91
	903	3,863
Total revenue	434,439	314,225

4. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment. However, business segments are not presented because the Group is principally engaged in the design, manufacture and sale of footwear products only and the Group's segment revenue and results were contributed solely by the manufacture and sale of footwear products.

Geographical segments are presented as secondary reporting format, and segment revenue is based on the final destination of goods sold. There are no sales between segments.

4. SEGMENT INFORMATION (Continued)

The analysis of segment revenue and results by geographical segment is based on the countries in which the customers are located. An analysis of the Group's segment revenue and results for the years ended 30 September 2002 and 2001 by geographical segment is as follows:

	Europe	PRC	United States of America	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2002					
Segment revenue:					
Sales to external customers	348,523	12,068	33,725	39,220	433,536
Segment results	32,311	1,886	3,127	3,635	40,959
Bank interest income					136
Finance costs					(241)
Profit before taxation					40,854
Taxation					(6,477)
Profit after taxation					34,377
Minority interests					(43)
Profit attributable to shareholders					34,334
2001					
Segment revenue:					
Sales to external customers	247,109	22,082	17,862	23,309	310,362
Segment results	22,979	5,156	1,661	2,167	31,963
Bank interest income					91
Finance costs					(243)
Profit before taxation					31,811
Taxation					(4,876)
Profit after taxation					26,935
Minority interests					(44)
Profit attributable to shareholders					26,891

All of the Group's assets as at 30 September 2002 and 2001 and its capital expenditure for the years then ended were located or utilised in the PRC.

5. OPERATING PROFIT

Operating profit is arrived at after charging:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Auditors' remuneration	**450**	447
Cost of inventories recognised as expense	**384,752**	272,965
Depreciation and amortisation on property, plant and equipment	**1,628**	1,386
Loss on disposal of property, plant and equipment	**1**	–
Rental under operating leases	**145**	194
Staff costs (including directors' remuneration of HK$2,020,000 (2001: HK$3,247,000) and contributions to retirement benefits schemes of HK$1,155,000 (2001: HK$1,127,000))	**14,592**	15,374

6. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank and other loans	**241**	243

7. TAXATION

	Group	
	2002	2001
	HK$'000	*HK$'000*
Overseas tax		
– subsidiaries	**6,477**	4,876

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year.

Huayi Footwear Co., Ltd. Jinjiang, a subsidiary of the Company established in Jinjiang, the Minnan area of the PRC, is subject to PRC income tax on its assessable profits at a preferential tax rate of 12% (2001: 12%).

7. TAXATION (Continued)

PRC income tax has been provided at the rate of 15% (2001: 15%) on the estimated assessable profits of Streaks Worldwide Ltd. and Vento Group Limited, subsidiaries of the Company, for the year.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred liability as at 30 September 2002. (2001: Nil).

8. DIVIDENDS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Special	12,522	20,696
Proposed final – one Hong Kong cent per share	4,000	–
	16,522	20,696

Special dividends for the years ended 30 September 2002 and 2001 were declared and paid by certain subsidiaries of the Company to their then shareholders prior to the Group Reorganisation, which was completed on 12 June 2002. Further details of the Group Reorganisation are set out in note 1 to the financial statements.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company for the period from 7 November 2001 (date of incorporation) to 30 September 2002 was approximately HK$9,225,000.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the year of HK$34,334,000 (2001: HK$26,891,000) and on the weighted average of 354,794,521 (2001: 340,000,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the earnings per share for the year ended 30 September 2001 includes the pro forma issued shares of the Company, comprising 1,000,000 shares issued nil paid on incorporation of the Company and 1,000,000 shares issued for the acquisition of the entire share capital of Fortress Ocean Limited and the capitalisation issue of 338,000,000 shares, as further detailed in note 21 to the financial statements. The weighted average number of shares used to calculate the earnings per share for the year ended 30 September 2002 includes the additional 60,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 3 July 2002.

No diluted earnings per share is presented for both years as there were no potential ordinary shares in issue.

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

Directors' fees and emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and the provisions of the Listing Rules are as follows:

	2002 *HK$'000*	2001 *HK$'000*
Fees	30	–
Other emoluments:		
– basic salaries, other allowances and benefits in kind	1,913	1,862
– discretionary bonuses	–	1,316
– retirement benefits contributions	77	69
	2,020	3,247

Independent non-executive directors received remuneration of HK$30,000 (2001: Nil) from the Group during the year.

11. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

(a) Directors' remuneration (Continued)

The number of directors whose remuneration fall within the following bands is as follows:

	Number of directors			
	Executive directors		Independent non-executive directors	
	2002	2001	2002	2001
HK$Nil – HK$1,000,000	2	1	2	–
HK$1,000,000 – HK$1,500,000	1	–	–	–
HK$1,500,000 – HK$2,000,000	–	–	–	–
HK$2,000,000 – HK$2,500,000	–	–	–	–
HK$2,500,000 – HK$3,000,000	–	1	–	–
	3	2	2	–

No directors waived or agreed to waive any remuneration in respect of the years ended 30 September 2002 and 2001.

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, three (2001: two) were the directors of the Company. The remaining two (2001: three) highest paid individuals were senior management of the Group. The aggregate amount of the remuneration of the individuals which has not been disclosed in directors' remuneration note 11(a) above is as follows:

	2002 *HK$'000*	2001 *HK$'000*
Basic salaries, other allowances and benefits in kind	138	210
Retirement benefits contributions	14	24
	152	234

The number of the above individuals whose remuneration fall within the following bands is as follows:

	Number of individuals	
	2002	2001
HK$Nil – HK$1,000,000	2	3

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2001: Nil)

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Plant and machinery HK$'000	Equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1 October 2001	6,226	13,817	685	862	21,590
Additions	388	91	75	–	554
Revaluation surplus	1,507	–	–	–	1,507
Eliminated on revaluation	(1,421)	–	–	–	(1,421)
Disposals	–	(28)	(5)	(99)	(132)
At 30 September 2002	**6,700**	**13,880**	**755**	**763**	**22,098**
Accumulated depreciation and amortisation					
At 1 October 2001	1,138	4,544	120	760	6,562
Charge for the year	283	1,252	59	34	1,628
Eliminated on revaluation	(1,421)	–	–	–	(1,421)
Disposals	–	(28)	(5)	(98)	(131)
At 30 September 2002	**–**	**5,768**	**174**	**696**	**6,638**
Net book value					
At 30 September 2002	**6,700**	**8,112**	**581**	**67**	**15,460**
At 30 September 2001	5,088	9,273	565	102	15,028

The analysis of the cost or valuation of the above assets is as follows:

	Land and buildings HK$'000	Plant and machinery HK$'000	Equipment and furniture HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	**13,880**	**755**	**763**	**15,398**
At professional valuation	**6,700**	–	–	–	**6,700**
	6,700	**13,880**	**755**	**763**	**22,098**

All of the Group's land and buildings are situated in the PRC. As at 30 September 2002, all of the Group's land and buildings are stated at professional valuation, which was carried out by DTZ Debenham Tie Leung Limited, an independent professional valuer, on an open market basis as at 30 September 2002.

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Had the land and buildings been carried at cost less accumulated depreciation and amortisation and impairment losses, their carrying amount would have been HK$5,193,000 (2001: HK$5,088,000).

The net book value of land and buildings comprises the following:

	HK$'000
Medium term lease (less than 50 years but not less than 10 years), at professional valuation	6,700

At 30 September 2002, certain of the Group's land and buildings with an aggregate carrying value of HK$3,200,000 was pledged as security for the Group's bank loan.

13. INTERESTS IN SUBSIDIARIES

Company

	2002 *HK$'000*
Investments,	
Unlisted shares, at cost	42,800
Amounts due from subsidiaries*	24,949
Amounts due to subsidiaries*	745

The cost of the Company's investments in subsidiaries is determined by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the Group Reorganisation completed on 12 June 2002.

* Amounts due from/to subsidiaries are unsecured, interest free and have no fixed repayment terms.

13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries as at 30 September 2002 are as follows:

Name	Country/Place of incorporation/ establishment and operations	Issued/Registered capital	Attributable equity interests held by the Company		Principal activities
			Direct	Indirect	
Fortress Ocean Limited	British Virgin Islands ("BVI")	US$1,000 Ordinary shares	100%	–	Investment holding
Daily Development Company Limited	Hong Kong	HK$2 Ordinary shares	–	100%	Provision of management services
Streaks Worldwide Ltd.	BVI/PRC	US$1,000 Ordinary shares	–	100%	Trading of footwear products
Vento Group Limited	BVI/PRC	US$1,000 Ordinary shares	–	100%	Trading of raw materials for manufacture of footwear products and provision of procurement services
Kaitai United Company Limited ("Kaitai") (formerly known as CMC Nominees Limited)	BVI	US$2,050 Ordinary shares	–	100%	Investment holding
Huayi Footwear Co., Ltd. Jinjiang ("Huayi") 晉江市華意鞋業有限公司	PRC	RMB9,000,000 Registered capital	–	100% *Note*	Manufacture and sale of footwear products and provision of sub–contracting services

Note: Huayi was established in the PRC on 23 August 1989 as a Sino-foreign equity joint venture with a term of operation of 20 years from 23 August 1989.

As at 30 September 2001, the Group held 95% equity interest in Huayi. During the year and prior to the Group Reorganisation, Kaitai issued 50 shares of US$1 each in exchange for the remaining 5% equity interest in Huayi. Since then, Huayi has become a wholly foreign owned enterprise and a wholly owned subsidiary of Kaitai.

14. OTHER INVESTMENT

	Group and Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted held-to-maturity debt securities, at amortised cost	999	–

15. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	8,459	9,115
Work in progress	3,989	3,762
Finished goods	9,984	6,438
	22,432	19,315

All the inventories are stated at cost.

16. TRADE AND OTHER RECEIVABLES

The Group's policy is to allow an average credit period of 30 to 60 days to its trade customers.

At 30 September 2002, the ageing analysis of the trade receivables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
0-30 days	37,272	28,492
31-60 days	11,952	10,877
61-90 days	52	–
91-180 days	180	144
181-365 days	–	183
Over 365 days	–	193
Trade receivables	49,456	39,889
Other receivables	135	85
	49,591	39,974

17. CASH AT BANKS

Included in cash at banks is an amount of approximately HK$35,762,000 (2001: HK$2,587,000), representing Renminbi deposits placed with banks in the PRC by the Group. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

18. SHORT TERM LOANS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank loan	1,411	1,411
Other loans		
– Loan from a PRC government agency	–	310
– Loans from a PRC credit company	1,693	1,693
	3,104	3,414

The bank loan was secured by certain of the Group's land and buildings with an aggregate carrying value of HK$3,200,000 at 30 September 2002.

The loans from a PRC credit company were secured by guarantees provided by certain unrelated third parties, interest bearing at monthly rates of 0.66375% and repayable on dates falling between 11 November 2002 and 5 March 2003.

19. TRADE AND OTHER PAYABLES

At 30 September 2002, the ageing analysis of the trade payables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
0-30 days	17,603	6,406
31-60 days	1,446	957
61-90 days	960	695
91-180 days	2,051	1,248
181-365 days	–	4,793
Over 365 days	–	2,076
Trade payables	22,060	16,175
Other payables	11,917	9,940
	33,977	26,115

20. AMOUNT DUE TO A DIRECTOR

The amount due to a director as at 30 September 2001, amounting to HK$6,211,000, has been fully repaid during the year.

21. SHARE CAPITAL

	2002 *HK$'000*	2001 *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	–
Issued and fully paid:		
400,000,000 ordinary shares of HK$0.10 each	**40,000**	8,066

Notes:

(i) The Company was incorporated in Bermuda on 7 November 2001 with an authorised share capital of HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each.

(ii) On 28 November 2001, 1,000,000 ordinary shares of HK$0.10 each was allotted and issued nil paid to the subscribers.

(iii) On 12 June 2002, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of 999,000,000 ordinary shares of HK$0.10 each, ranking pari passu with the existing shares of the Company.

(iv) On 12 June 2002, as part of the Group Reorganisation, the Company issued an aggregate of 1,000,000 ordinary shares of HK$0.10 each credited as fully paid in consideration for the acquisition of the entire share capital of Fortress Ocean Limited. The excess of the fair value of the ordinary shares of Fortress Ocean Limited, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's ordinary shares issued and credited as fully paid on exchange therefor, amounting to HK$42,700,000, was credited to the Company's contributed surplus as detailed in note 23 to the financial statements.

(v) On 12 June 2002, an amount of HK$100,000 (being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the issued ordinary shares of Fortress Ocean Limited as set out in (iv) above) was applied to pay up, in full at par value, the 1,000,000 ordinary shares allotted and issued nil paid on 28 November 2001.

(vi) On 12 June 2002, a total of 338,000,000 ordinary shares of HK$0.10 each were allotted and issued as fully paid at par to the holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK$33,800,000 standing to the credit of the share premium account and the contributed surplus account of the Company, conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public on 3 July 2002 as detailed in (vii) below.

(vii) On 3 July 2002, 60,000,000 ordinary shares of HK$0.10 each of the Company were issued at HK$0.50 per share for cash to the public by placing and public offer. The excess of the issue proceeds over the par value of the shares issued was credited to the share premium account.

21. SHARE CAPITAL (Continued)

The comparative figure for issued and fully paid share capital as at 30 September 2001 represents the combined total of the issued ordinary share capital of the subsidiaries as at that date prior to the Group Reorganisation referred to in note 1 to the financial statements.

None of the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

A summary of the above movements in the issued ordinary share capital of the Company is as follows:

	Notes	Number of shares issued	Share capital *HK$'000*
Shares allotted and issued nil paid	(ii)	1,000,000	–
Shares issued as consideration for the acquisition of the entire share capital of Fortress Ocean Limited pursuant to the Group Reorganisation	(iv)	1,000,000	100
Application of contributed surplus to pay up the 1,000,000 ordinary shares issued nil paid	(v)	–	100
Capitalisation issue credited as fully paid	(vi)	338,000,000	33,800
New issue on public listing	(vii)	60,000,000	6,000
As at 30 September 2002		**400,000,000**	**40,000**

22. SHARE OPTIONS

The Company operates a share option scheme, further details of which are set out in the section headed "Share Option Scheme" in the Directors' Report on pages 13 and 14.

During the year, no share options had been granted under the share option scheme (2001: Nil).

23. RESERVES

Group

	Share premium HK$'000	Assets revaluation reserve HK$'000	Merger reserve HK$'000 (note (a))	Statutory reserve fund HK$'000 (note (c))	Retained profits HK$'000	Total HK$'000
At 1 October 2000	–	–	–	104	12,820	12,924
Profit attributable to shareholders	–	–	–	–	26,891	26,891
Appropriations	–	–	–	83	(83)	–
Dividends – *note 8*	–	–	–	–	(20,696)	(20,696)
At 30 September 2001 and 1 October 2001	–	–	–	187	18,932	19,119
Premium arising from issue of new shares – *note 21 (vii)*	24,000	–	–	–	–	24,000
Shares issue expenses	(5,590)	–	–	–	–	(5,590)
Capitalisation issue of shares – *note 21(vi)*	(18,410)	–	–	–	(15,390)	(33,800)
Revaluation surplus on land and buildings	–	1,507	–	–	–	1,507
Reserve arising on acquisition of additional interest in a subsidiary	–	–	–	12	128	140
Merger reserve arising upon the Group Reorganisation	–	–	8,390	–	–	8,390
Reserve applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation – *note 21(v)*	–	–	–	–	(100)	(100)
Profit attributable to shareholders	–	–	–	–	34,334	34,334
Appropriations	–	–	–	93	(93)	–
Dividends – *note 8*	–	–	–	–	(16,522)	(16,522)
At 30 September 2002	**–**	**1,507**	**8,390**	**292**	**21,289**	**31,478**

23. RESERVES (Continued)

Company

	Share premium *HK$'000*	Contributed surplus *HK$'000* *(note (b))*	Retained profits *HK$'000*	Total *HK$'000*
At 7 November 2001	–	–	–	–
Arising on acquisition of Fortress Ocean Limited and its subsidiaries – *note 21(iv)*	–	42,700	–	42,700
Applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation – *note 21(v)*	–	(100)	–	(100)
Premium arising from issue of new shares – *note 21(vii)*	24,000	–	–	24,000
Share issue expenses	(5,590)	–	–	(5,590)
Capitalisation issue of shares – *note 21 (vi)*	(18,410)	(15,390)	–	(33,800)
Profit attributable to shareholders	–	–	9,225	9,225
Proposed final dividend – *note 8*	–	–	(4,000)	(4,000)
At 30 September 2002	**–**	**27,210**	**5,225**	**32,435**

(a) Merger reserve of the Group represents the difference between the aggregate of the nominal value of the ordinary shares of the subsidiaries acquired and the nominal value of the ordinary shares of the Company issued pursuant to the Group Reorganisation.

(b) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares of the Company issued in a share for share exchange and the fair value of the aggregate net assets of the subsidiaries acquired.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus of the Company is available for distribution, subject to condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

23. RESERVES (Continued)

(c) According to the Articles of Association of Huayi, Huayi is required to transfer at least 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into capital but not distributable to shareholders. During the years ended 30 September 2002 and 2001, 10% of the net profit of Huayi was appropriated to the statutory reserve fund.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 30 September 2002 consisted of the aggregate of the contributed surplus and retained profits totalling approximately HK$36,435,000 (excluding the proposed final dividend).

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(i) Group Reorganisation

The Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of Fortress Ocean Limited through the issue of shares of the Company in aggregate of 1,000,000 ordinary shares of HK$0.10 each. An amount of HK$100,000 (being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the issued ordinary shares of Fortress Ocean Limited) was applied to pay for the 1,000,000 ordinary shares allotted and issued nil paid on 28 November 2001, further details of which are set out in notes 1 and 21 to the financial statements.

(ii) Capitalisation issue

A total of 338,000,000 ordinary shares of HK$0.10 each were allotted and issued as fully paid at par by way of capitalisation of the sum of HK$33,800,000 standing to the credit of the share premium account and the contributed surplus account of the Company, further details of which are set out in note 21 to the financial statements.

(iii) Consideration for the acquisition of the 5% minority interests in Huayi during the year and prior to the Group Reorganisation was satisfied by the issue of 50 shares of US$1 each in Kaitai.

25. COMMITMENTS

(a) Commitments under operating leases

At 30 September 2002, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings	
	2002	2001
	HK$'000	*HK$'000*
Within one year	223	195
In the second to fifth years	157	173
	380	368

At 30 September 2002, the Company had no operating lease commitments.

(b) Capital commitments

The Group and the Company did not have any capital commitments as at the balance sheet date (2001: Nil).

26. PLEDGE OF ASSETS

At 30 September 2002, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$3,200,000 (2001: Nil) was pledged to a bank to secure the Group's bank loan.

27. RETIREMENT BENEFITS SCHEMES

The Group operates a MPF scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustees.

The employees of the Company's subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the retirement schemes at a certain percentage of the basic salaries of their employees.

The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the income statement of HK$1,155,000 (2001: HK$1,127,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. As at 30 September 2002 and 2001, no contributions due in respect of the reporting years had not been paid to the schemes.

28. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at the balance sheet date.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 18 to 45 were approved by the board of directors on 21 January 2003.