

NOTES TO FINANCIAL STATEMENTS

31 March 2003

1. CORPORATE INFORMATION

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

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the year, the Group and its associates were involved in the following principal activities:

- the sale of garments;
- the trading and distribution of leather, fur and garment accessories; and
- the generation and sale of electricity through the operation of a coal-fired electricity power plant (the "Power Plant") located in the Fujian Province, the People's Republic of China (the "PRC").

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 18 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 26 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies

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

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

A joint venture company is treated as:

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

Jointly-controlled entities

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

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

Associates

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding 20 years. In the case of associates and jointly controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

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

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

Furniture, fixtures, equipment and leasehold improvements	5 years
Motor vehicles	5 years
Plant and machinery	5 years

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments represent investments in unlisted equity securities that are intended to be held on a continuing basis and for an identified long term purpose. Long term investments are stated at cost less any impairment losses, on an individual investment basis. When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises.

When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and conditions. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short term investments

Short term investments are investments in listed equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Deferred tax

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

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 and short term listed equity investments, 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 and short term listed equity investments sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, in accordance with the terms of the lease agreements over the period to which the rentals relate; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

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 those employees in Hong Kong 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 profit and loss account 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (continued)

Share option scheme

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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

Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in 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 balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the garments segment involves the sale of garments;
- (b) the leather, fur and garment accessories segment involves the trading and distribution of leather, fur and garment accessories; and
- (c) the "others" segment comprises, principally, the Group's Power Plant business and the trading and holding of equity investments.

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

No intersegment sales and transfers were transacted during the year (2002: Nil).

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

4. SEGMENT INFORMATION (Continued)
(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Garments		Leather, fur and garment accessories		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	39,549	37,624	4,242	34,805	–	–	43,791	72,429
Other revenue and gains	592	–	202	1,438	–	6,698	794	8,136
Total	40,141	37,624	4,444	36,243	–	6,698	44,585	80,565
Segment results	193	176	(4,671)	(3,985)	(7,020)	6,532	(11,498)	2,723
Unallocated other revenue and gains							1,486	1,931
Unallocated expenses							(4,938)	(5,487)
Loss from operating activities							(14,950)	(833)
Finance costs							(1,380)	(1,973)
Share of profits and losses of:								
Associates					12,815	19,670	12,815	19,670
Amortisation of goodwill on acquisition of associates					(4,093)	(2,565)	(4,093)	(2,565)
							8,722	17,105
Profit/(loss) before tax							(7,608)	14,299
Tax							2,255	268
Profit/(loss) before minority interests							(5,353)	14,567
Minority interests							(83)	(163)
Net profit/(loss) from ordinary activities attributable to shareholders							(5,436)	14,404

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

4. SEGMENT INFORMATION (Continued)**(a) Business segments (continued)**

Group	Garments		Leather, fur and garment accessories		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	16,891	15,394	9,742	39,832	46,428	22,370	73,061	77,596
Interests in associates	-	-	-	-	168,146	173,733	168,146	173,733
Unallocated assets							27,418	25,230
Total assets							268,625	276,559
Segment liabilities	3,167	11,536	-	362	11,188	9,099	14,355	20,997
Unallocated liabilities							20,733	14,763
Total liabilities							35,088	35,760
Other segment information:								
Depreciation	538	187	554	643	-	-	1,092	830
Amortisation of goodwill	-	-	-	-	4,093	2,565	4,093	2,565
Other non-cash expenses	150	918	71	-	-	-	221	918
Unallocated non-cash expenses	-	-	-	-	-	-	478	574
Capital expenditure	2,566	381	2,935	67	-	-	5,501	448

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	11,560	52,132	4,453	363	27,778	19,934	43,791	72,429
Other segment information:								
Segment assets	33,789	99,879	234,836	176,680	-	-	268,625	276,559
Capital expenditure	4,369	448	1,132	-	-	-	5,501	448

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All intra-group transactions have been eliminated on consolidation.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of goods	43,791	72,429
Other revenue		
Dividend income from a long term investment	–	4,395
Bad debts recovered	202	1,438
Gross rental income	–	427
Interest income	556	866
Others	1,522	496
	2,280	7,622
Gains		
Net realised gains on trading of short term listed equity investments	–	956
Net unrealised holding gains less losses on short term listed equity investments	–	1,347
Exchange gains, net	–	142
	–	2,445
	2,280	10,067

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

6. LOSS FROM OPERATING ACTIVITIES

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

		Group	
		2003	2002
	Notes	HK\$'000	HK\$'000
Cost of inventories sold		37,882	64,925
Auditors' remuneration		490	500
Depreciation	14	1,092	830
Minimum lease payments under operating leases in respect of land and buildings		1,227	1,289
Loss on disposal of fixed assets		71	118
Exchange losses, net		89	–
Staff costs (directors' remuneration included – note 7):			
Salaries		6,744	6,410
Pension scheme contributions*		213	190
		6,957	6,600
Provision for doubtful debts		150	800
Bad debts written off		382	–
Loss on disposal of investment properties		–	562
Loss on disposal of subsidiaries	28(c)	478	12
Net realised losses on trading of short term listed equity investments		4,558	–
Net unrealised holding losses on short term listed equity investments		52	–
Net rental income		–	(425)

* At 31 March 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

7. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	60
Independent non-executive directors	<u>40</u>	<u>40</u>
	<u>40</u>	<u>100</u>
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,306	2,284
Bonuses	1,100	172
Pension scheme contributions	<u>49</u>	<u>48</u>
	<u>2,455</u>	<u>2,504</u>
	<u>2,495</u>	<u>2,604</u>

There were no other emoluments paid or payable to the independent non-executive directors for the year (2002: Nil).

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

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	9	6
HK\$1,000,001 to HK\$1,500,000	<u>–</u>	<u>1</u>
	<u>9</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year (2002: Nil).

No share options were granted to the directors of the Company during the year (2002: Nil).

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: five) directors of the Company, details of whose remuneration are set out in note 7 above. The remuneration of the remaining three (2002: Nil) non-director, highest paid employees, which fell within the band of nil – HK\$1,000,000 for the year ended 31 March 2003, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,378	–
Pension scheme contributions	36	–
	<u>1,414</u>	<u>–</u>

No share options were granted to the remaining three non-director, highest paid employees in respect of their services to the Group (2002: Nil).

9. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	860	668
Bank loans wholly repayable beyond five years	520	181
Convertible note	–	1,105
Finance leases	–	19
	<u>1,380</u>	<u>1,973</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

10. TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
Overprovision in the prior years	(3,564)	(1,860)
Share of tax attributable to associates	1,309	1,592
Tax credit for the year	(2,255)	(268)

No provisions for profits taxes have been made as the Group did not generate any assessable profits arising in Hong Kong or elsewhere in which the Group operates during the year (2002: Nil).

At the balance sheet date, the Group had an unrecognised deferred tax asset in respect of tax losses carried forward of HK\$7,700,000 (2002: HK\$15,308,000).

The Company did not have any significant unprovided deferred tax liabilities at the balance sheet date (2002: Nil).

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company was HK\$1,344,000 (2002: net profit of HK\$4,991,000).

12. DIVIDEND

	Group	
	2003	2002
	HK\$'000	HK\$'000
Proposed final – Nil (2002: HK0.05 cent) per ordinary share	–	3,708

The directors do not recommend the payment of any dividend in respect of the financial year ended 31 March 2003.

The 2002 final dividend above did not include an adjustment of 2002 final dividend of approximately HK\$53,000 as a result of share options exercised after 31 March 2002 but prior to the date of the closure of register of members for 2002 final dividend on 16 August 2002.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$5,436,000 (2002: net profit of HK\$14,404,000), and the weighted average of 7,500,275,000 (2002: 6,474,018,000) ordinary shares in issue during the year.

No diluted loss per share amount is presented for the current year as there were no dilutive potential ordinary shares in existence during the year.

The calculation of diluted earnings per share for the year ended 31 March 2002 is based on the net profit attributable to shareholders for that year of HK\$14,404,000. The weighted average number of ordinary shares used in the calculation is the 6,474,018,000 ordinary shares in issue during that year, as used in the basic earnings per share calculation; and the weighted average of 130,366,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of certain of the Company's share options outstanding during that year.

14. FIXED ASSETS**Group**

	Property under development	Furniture, fixtures, equipment and leasehold improvements	Motor vehicles	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At beginning of year	–	4,319	597	802	5,718
Additions	659	882	1,562	2,398	5,501
Disposals	–	(3,613)	(349)	(309)	(4,271)
Disposals of subsidiaries	(659)	(181)	(292)	–	(1,132)
At 31 March 2003	–	1,407	1,518	2,891	5,816
Accumulated depreciation:					
At beginning of year	–	3,573	597	743	4,913
Provided during the year	–	410	191	491	1,092
Disposals	–	(3,542)	(349)	(309)	(4,200)
Disposals of subsidiaries	–	(10)	(6)	–	(16)
At 31 March 2003	–	431	433	925	1,789
Net book value:					
At 31 March 2003	–	976	1,085	1,966	4,027
At 31 March 2002	–	746	–	59	805

Certain of the Group's plant and machinery, which had an aggregate net book value at the balance sheet date of approximately HK\$1,605,000 (2002: Nil) were pledged to secure the Group's banking facilities (note 24).

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	82,058	82,058
Due from subsidiaries	412,100	393,485
Due to subsidiaries	(95,217)	(79,825)
	<u>398,941</u>	<u>395,718</u>
Less: Provision for impairment	(176,724)	(176,724)
	<u>222,217</u>	<u>218,994</u>

The balances with subsidiaries are unsecured, interest-free and are not repayable in the next 12 months.

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

Particulars of the principal subsidiaries of the Company at 31 March 2003 were as follows:

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Dragonfield Group (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	US\$1,000	100	Investment holding
Indirectly held				
Best Concept Industrial Limited	Hong Kong	HK\$10,000	100	Property investment
Bravo Industrial Limited*	BVI/ Hong Kong	US\$1	100	Investment holding
Dragonfield Management Limited	Hong Kong	HK\$2	100	Provision of management services
Flying Gain Holdings Limited	BVI/ Hong Kong	US\$2	100	Investment holding

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Grand Gain International Limited	Hong Kong	HK\$2	100	Provision of management services
King Fair Properties Limited	Hong Kong	HK\$2	100	Property investment
Luchino (Int'l) Leatherware & Garment Limited	Hong Kong	HK\$2	100	Sale of garments
New Eastern Harbour (Int'l) Trading Limited	Hong Kong	HK\$2	100	Trading of leather, fur and garment accessories
Perfect Yield Holdings Limited	BVI/ Hong Kong	US\$7	100	Investment holding
Region Link Holdings Limited	BVI/ Hong Kong	US\$2	100	Investment holding
Royalink Industrial Limited	Hong Kong	HK\$2,000,000	51	Sale of garments
Royce Group Limited	BVI/ Hong Kong	US\$1	100	Investment holding
Royce Investment (HK) Limited*	Hong Kong	HK\$2	100	Investment holding
Royce Properties Limited*	Hong Kong	HK\$2	100	Investment holding
Telcone Star Co., Ltd.	Hong Kong	HK\$2	100	Material sourcing
Yi Lok Limited	Hong Kong	HK\$2	100	Material sourcing

* Subsidiaries newly established during the year

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Loans to jointly-controlled entities	<u>20,194</u>	<u>–</u>

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

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Indirectly held						
Best Base Investments Limited	Corporate	Hong Kong/ Mainland China	50	50	50	Property development
United Force Development Limited	Corporate	Hong Kong/ Mainland China	50	50	50	Property development

17. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	104,719	106,721
Unamortised goodwill on acquisition	62,919	67,012
	<u>167,638</u>	<u>173,733</u>
Due from an associate	508	–
	<u>168,146</u>	<u>173,733</u>

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

17. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Held indirectly				
Concade Assets Limited ("Concade")	Corporate	BVI/ Hong Kong	44	Investment holding
Everbest Century Limited	Corporate	Hong Kong	44	Investment holding
Longyan Hengfa Electric Industry Co., Ltd. ("Longyan Hengfa") 龍岩恒發電業有限公司	Corporate	PRC/ Mainland China	39.6	Management and operation of a Power Plant

Extracts of the operating results and financial position of Concade and its subsidiaries (the "Concade Group"), which are based on the financial statements of the Concade Group prepared under accounting principles generally accepted in Hong Kong, are as follows:

	Year ended 31 March 2003 HK\$'000	Period from 17 August 2001 (date of acquisition by the Group) to 31 March 2002 HK\$'000
Operating results:		
Turnover	116,537	113,204
Profit before tax	29,124	44,704
Profit after tax	26,149	41,086
Net profit attributable to the Group	11,506	18,078

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

17. INTERESTS IN ASSOCIATES (Continued)

	31 March 2003 HK\$'000	31 March 2002 HK\$'000
Financial position:		
Non-current assets	354,930	374,416
Current assets	97,139	104,892
Non-current liabilities	(107,707)	(121,373)
Current liabilities	(91,038)	(94,448)
Minority interests	(15,326)	(20,939)
	<u>237,998</u>	<u>242,548</u>

The amount of goodwill included as part of the Group's interests in associates, arising from the acquisition of associates in prior years is as follows:

	Group 2003 HK\$'000	2002 HK\$'000
Cost:		
At beginning of year and at end of year	69,577	69,577
Accumulated amortisation:		
At beginning of year	2,565	–
Provided during the year	4,093	2,565
	<u>6,658</u>	<u>2,565</u>
Net book value:		
At end of year	<u>62,919</u>	<u>67,012</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

18. LONG TERM INVESTMENT

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>39,207</u>	<u>–</u>

On 7 February 2003, Bravo Industrial Limited, a wholly-owned subsidiary of the Company acquired a 10.24% equity interest and a shareholders' loan of US\$1,156,000 (approximately HK\$9,016,800) in Online Investments Limited ("Online") from Skyriver (B.V.I.) Limited ("Skyriver"), a company beneficially owned by Mr. Chan Chun Keung, an executive director of the Company, for a consideration of HK\$45 million. The consideration was satisfied by assignment of certain short term listed equity investments with carrying value of HK\$14,009,000 on 7 February 2003 and certain receivables of HK\$16,991,000 and a cash payment of HK\$14,000,000 from the Group to Skyriver. The above acquisition was completed on 24 March 2003 at which time the market value of the short term listed equity investments was HK\$12,540,000. A portion of the shareholders' loan of HK\$4,794,000 was repayable within one year and is included in other receivables in the consolidated balance sheet. Online is a subsidiary of Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong and whose shares are listed on the Stock Exchange, and is engaged in the manufacturing and sale of steel cords for tyres in the PRC through its wholly-owned subsidiary, Jiaxing Eastern Steel Cord Co., Ltd. (notes 28(a)(i) and 32(vi)).

19. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	2,148	2,373
Finished goods	<u>484</u>	<u>574</u>
	<u>2,632</u>	<u>2,947</u>

None of the above inventories was carried at net realisable value at 31 March 2003 (2002: HK\$0.3 million).

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

20. TRADE AND BILLS RECEIVABLES

Trade debtors, which generally have credit terms of not more than 180 days, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

An aged analysis of the Group's trade and bills receivables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 90 days	11,552	15,817
91 – 180 days	563	10,131
Over 180 days	1,502	13,353
	<u>13,617</u>	<u>39,301</u>
Less: Provisions	(893)	(1,312)
	<u>12,724</u>	<u>37,989</u>

21. SHORT TERM INVESTMENTS

The short term investments represented Hong Kong listed equity investments stated at market value at 31 March 2003.

The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK\$3,269,000 (2002: HK\$17,484,000).

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances		902	12,647	113	184
Time deposits		6,322	12,583	4,806	11,369
		<u>7,224</u>	25,230	<u>4,919</u>	11,553
Less: Pledged time deposits for trade finance facilities	24	(1,517)	(1,215)	–	–
Cash and cash equivalents		<u>5,707</u>	24,015	<u>4,919</u>	11,553

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

23. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current – 90 days	6,006	9,707
91 days – 180 days	597	269
Over 180 days	63	–
	<u>6,666</u>	<u>9,976</u>

24. INTEREST-BEARING BANK LOANS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank loans repayable:		
Within one year	10,534	3,910
In the second year	1,200	912
In third to fifth years, inclusive	1,780	2,282
Beyond five years	7,219	7,659
	<u>20,733</u>	<u>14,763</u>
Portion classified as current liabilities	<u>(10,534)</u>	<u>(3,910)</u>
Non-current portion	<u>10,199</u>	<u>10,853</u>
Analysed as follows:		
Secured	11,608	2,976
Unsecured	9,125	11,787
	<u>20,733</u>	<u>14,763</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

24. INTEREST-BEARING BANK LOANS (Continued)

- (a) The Group's trade finance facilities amounting to HK\$15,000,000 (2002: HK\$10,000,000), of which HK\$9,262,000 (2002: HK\$1,010,000) has been utilised at the balance sheet date, are secured by the pledge of certain of the Group's time deposits amounting to HK\$1,517,000 (2002: HK\$1,215,000).
- (b) The Group's banking facilities at 31 March 2003 were secured by:
- (i) corporate guarantees executed by the Company;
 - (ii) legal charges over the Group's time deposits amounting to approximately HK\$1,517,000 (2002: HK\$1,215,000) (note 22);
 - (iii) unlimited personal guarantees provided for a subsidiary executed by certain directors of that subsidiary;
 - (iv) joint and personal guarantees to the extent of HK\$700,000 in aggregate and security over deposits of HK\$500,000 in aggregate executed by certain directors of a subsidiary and the spouse of one of the directors;
 - (v) a leasehold property and a car parking space owned by certain directors of a subsidiary and the spouse of one of the directors; and
 - (vi) the pledge of certain of the Group's plant and machinery, which had an aggregate net book value at the balance sheet date of approximately HK\$1,605,000 (2002: Nil) (note 14).

25. SHARE CAPITAL

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.01 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
7,522,252,000 (2002: 7,416,002,000) ordinary shares of HK\$0.01 each	<u>75,223</u>	<u>74,160</u>

During the year, the subscription rights attaching to 106,250,000 share options were exercised at the subscription price of HK\$0.016 per share by two former directors (note 26), resulting in the issue of 106,250,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$1,700,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

25. SHARE CAPITAL (Continued)

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

	Number of ordinary shares of HK\$0.01 each '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Issued and fully paid:				
At 1 April 2001	3,108,000	31,080	78,389	109,469
Warrants exercised	1	–	–	–
Open offer in June 2001	3,108,001	31,080	46,620	77,700
First subscription in June 2001	600,000	6,000	9,000	15,000
Second subscription in June 2001	600,000	6,000	18,000	24,000
	<u>7,416,002</u>	<u>74,160</u>	<u>152,009</u>	<u>226,169</u>
Share issue expenses	–	–	(2,269)	(2,269)
At 31 March 2002 and 1 April 2002	7,416,002	74,160	149,740	223,900
Share options exercised	106,250	1,063	637	1,700
	<u>7,522,252</u>	<u>75,223</u>	<u>150,377</u>	<u>225,600</u>
Share issue expenses	–	–	(6)	(6)
At 31 March 2003	<u>7,522,252</u>	<u>75,223</u>	<u>150,371</u>	<u>225,594</u>

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 26 to the financial statements.

Warrants

At 1 April 2002, there were a total of HK\$20,719,920 warrants outstanding. Each warrant entitles the holder thereof to the right to subscribe for a new ordinary share at a subscription price of HK\$0.07 per share, subject to adjustment, at any time during the period commencing from 26 April 2000 (the date of the commencement of dealings in such warrants on the Stock Exchange) up to and including 1 May 2002.

The subscription rights attaching to the outstanding warrants lapsed on 30 April 2002.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

26. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include any employee of the Company or any of its subsidiaries (including any director of the Company or any of its subsidiaries). The Scheme was adopted on 15 April 1997 and became effective on 15 May 1997, and unless otherwise cancelled or amended, will remain in force for 10 years from the adoption date.

The maximum number of shares in respect of which options may be granted at any time under the Scheme shall not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the exercise of any option granted under this Scheme). At 31 March 2003, the number of shares issuable under share options granted under the Scheme was 147,687,500, which represented approximately 2% of the Company’s shares in issue at that date. No option may be granted to any eligible employee where the number of shares falling to be issued to the eligible employee upon the exercise thereof, when aggregated with the total number of shares issued or which would be issued to the eligible employee upon a prior or subsequent exercise of all other options granted to the eligible employee, would exceed 25% of the maximum number of shares that may be issued pursuant to the Scheme.

The Scheme shall be subject to the administration of the directors whose decision on all matters arising in relation to this Scheme or their interpretation or effect shall be final and binding on all persons who may be affected thereby.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The option period of an option may not end later than 10 years after the date of offer of the option.

The subscription price (which is subject to adjustment) of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing prices of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the relevant date of offer; and (ii) the nominal value of the Company’s shares.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

26. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options (note (i))	Exercise period of share options		Exercise price of share options HK\$ (note (ii))	Price of Company's shares at exercise date of options HK\$ (note (iii))	
	At 1 April 2002	Exercised during the year	Lapsed during the year		At 31 March 2003	From			To
Directors									
Mr. Chan Chun Keung	18,181,818	–	(18,181,818)	–	10 April 2000	10 April 2000	9 April 2002	0.066	–
	64,238,750	–	–	64,238,750	4 January 2001	16 January 2001	15 January 2006	0.016	–
Mr. Chau On Ta Yuen	8,333,333	–	(8,333,333)	–	10 April 2000	10 April 2000	9 April 2002	0.066	–
	21,250,000	–	–	21,250,000	4 January 2001	16 January 2001	15 January 2006	0.016	–
Mr. Poon Chak Keung*	18,181,818	–	(18,181,818)	–	10 April 2000	10 April 2000	9 April 2002	0.066	–
	53,125,000	(53,125,000)	–	–	4 January 2001	16 January 2001	15 January 2006	0.016	0.020
Mr. Pu Ziren*	18,181,818	–	(18,181,818)	–	10 April 2000	10 April 2000	9 April 2002	0.066	–
	53,125,000	(53,125,000)	–	–	4 January 2001	16 January 2001	15 January 2006	0.016	0.025
Mr. Dominic Lai	5,312,500	–	–	5,312,500	4 January 2001	16 January 2001	15 January 2006	0.016	–
Mr. Chan Kam Man	5,312,500	–	–	5,312,500	4 January 2001	16 January 2001	15 January 2006	0.016	–
	<u>265,242,537</u>	<u>(106,250,000)</u>	<u>(62,878,787)</u>	<u>96,113,750</u>					
Other employees									
In aggregate	12,878,789	–	(12,878,789)	–	10 April 2000	10 April 2000	9 April 2002	0.066	–
	51,573,750	–	–	51,573,750	4 January 2001	16 January 2001	15 January 2006	0.016	–
	<u>64,452,539</u>	<u>–</u>	<u>(12,878,789)</u>	<u>51,573,750</u>					
	<u>329,695,076</u>	<u>(106,250,000)</u>	<u>(75,757,576)</u>	<u>147,687,500</u>					

* These two directors resigned as the Company's directors during the year.

Notes:

- (i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- (iii) The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

26. SHARE OPTION SCHEME (Continued)

The 106,250,000 share options exercised by the two former directors during the year resulted in the issue of 106,250,000 ordinary shares of the Company and new share capital of HK\$1,062,500 and share premium of HK\$637,500 (before issue expenses), as detailed in note 25 to the financial statements.

At the balance sheet date, the Company had 147,687,500 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 147,687,500 additional ordinary shares of the Company and additional share capital of HK\$1,476,875 and share premium of HK\$886,125 (before issue expenses).

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 18 of the financial statements.

The contributed surplus of the Group arose as a result of the Group reorganisation in 1997 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share capital of the subsidiaries then acquired.

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2001	78,389	2,643	(1,085)	79,947
Issue of shares	73,620	–	–	73,620
Share issue expenses	(2,269)	–	–	(2,269)
Net profit for the year	–	–	4,991	4,991
Proposed final 2002 dividend (note 12)	–	–	(3,708)	(3,708)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002 and 1 April 2002	149,740	2,643	198	152,581
	<hr/>	<hr/>	<hr/>	<hr/>
Issue of shares	637	–	–	637
Share issue expenses	(6)	–	–	(6)
Net loss for the year	–	–	(1,344)	(1,344)
Adjustment to 2002 dividend as a result of share options exercised	–	–	(53)	(53)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	150,371	2,643	(1,199)	151,815

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

27. RESERVES (Continued)**(b) Company (Continued)**

The contributed surplus of the Company arose as a result of the reorganisation referred to in note 27(a) and represents the excess of the fair value of the shares of the subsidiaries then acquired, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances prescribed by Section 54 thereof.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Major non-cash transactions**

- (i) On 7 February 2003, Bravo Industrial Limited, a wholly-owned subsidiary of the Company acquired a 10.24% equity interest and shareholders' loan of US\$1,156,000 (approximately HK\$9,016,800) in Online from Skyriver, a company beneficially owned by Mr. Chan Chun Keung, an executive director of the Company, for a consideration of HK\$45 million. The consideration was satisfied by assignment of certain short term listed equity investments with carrying value of HK\$14,009,000 on 7 February 2003 and certain receivables of HK\$16,991,000 and a cash payment of HK\$14,000,000 from the Group to Skyriver. The above acquisition was completed on 24 March 2003 at which time the market value of the short term listed equity investments was HK\$12,540,000.
- (ii) During the year, the Group obtained temporary margin financing from an independent licensed securities company of HK\$215,904,000 for the application for the subscription of new issued shares in BOC Hong Kong (Holdings) Limited, a Hong Kong listed company. Only a portion of the application for subscription for new issued shares has been allotted to the Group which was then funded out of the Group's internal resources with the margin financing wholly withdrawn after the application for subscription. The interest paid for the margin financing was approximately HK\$186,000 during the year.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)
(b) Acquisition of a subsidiary

	Group	
	2003	2002
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	–	226
Inventories	–	2,354
Trade and bills receivables	–	4,333
Prepayments, deposits and other receivables	–	1,491
Cash and bank balances	–	180
Trade and bills payables	–	(4,303)
Tax payable	–	(99)
Other payables and accruals	–	(165)
Interest-bearing bank borrowings	–	(2,017)
Minority interests	–	(980)
	<u>–</u>	<u>1,020</u>
Satisfied by cash	<u>–</u>	<u>1,020</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cash consideration paid	–	1,020
Cash and bank balances acquired	–	(180)
	<u>–</u>	<u>840</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>–</u>	<u>840</u>

The subsidiary acquired in the prior year contributed HK\$37,624,000 to the Group's turnover and HK\$332,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2002.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)
(c) Disposal of subsidiaries

		Group	
	Notes	2003	2002
		HK\$'000	HK\$'000
Net assets disposed of:			
Fixed assets	14	1,116	–
Cash and bank balances		2,111	2
Prepayments, deposits and other receivables		5	10
Other payables and accruals		(10)	–
Minority interests		(1,244)	–
		<u>1,978</u>	12
Loss on disposal of subsidiaries	6	(478)	(12)
		<u>1,500</u>	–
Satisfied by:			
Cash		<u>1,500</u>	–

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

		Group	
		2003	2002
		HK\$'000	HK\$'000
Cash consideration		1,500	–
Cash and bank balances disposed of		(2,111)	(2)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries		<u>(611)</u>	<u>(2)</u>

The results of the subsidiaries disposed of in the current and prior years had no significant impact on the Group's consolidated turnover or profit/(loss) after tax for those years.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 March 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	652	858
In the second to fifth years, inclusive	683	213
	<u>1,335</u>	<u>1,071</u>

The Company did not have significant lease commitments at the balance sheet date (2002: Nil).

30. CONTINGENT LIABILITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bills discounted with recourse	<u>1,043</u>	<u>1,464</u>

At 31 March 2003, the Company had given guarantees to banks in connection with banking facilities granted to subsidiaries in an aggregate amount of HK\$28,830,000 (2002: HK\$35,550,000), of which approximately HK\$20,733,000 (2002: HK\$13,195,000) was utilised at the balance sheet date.

31. PLEDGE OF ASSETS

Details of the Group's banking facilities secured by the assets of the Group are included in note 24 to the financial statements.

32. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with connected and/or related parties:

- (i) On 25 April 2002, the Group entered into a loan agreement with Concade, an associate of the Group. Concade is owned by the Group, Mr. Chan Chun Keung, an executive director of the Company, through certain companies wholly owned by him and an independent third party as to 44%, 55% and 1%, respectively. Pursuant to the loan agreement, the Group granted an unsecured loan of US\$1,200,000 which bore interest at 5% per annum and was fully repaid in July 2002. The interest received from Concade was approximately HK\$126,000 during the year.

The above transaction constituted a connected transaction under the Listing Rules and has been properly approved by the Company's board of directors on 25 April 2002.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

32. CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

- (ii) During the year, certain directors of a subsidiary and the spouse of one of the directors executed joint and personal guarantee and legal charges on certain of their personal assets for certain general banking facilities of a subsidiary (note 24).
- (iii) In prior years, Royalink Industrial Limited (“Royalink”), a subsidiary of the Group advanced funds of approximately HK\$2.1 million to a director of Royalink (who is not a director of the Company) and the advance was outstanding upon the acquisition of Royalink in the prior year. The amount advanced is unsecured, bears interest at Hong Kong dollar prime rate per annum and has no fixed terms of repayment. The amount due from the director of Royalink was approximately HK\$1.9 million at 31 March 2003. Approximately HK\$1.4 million has been settled subsequent to year end.
- (iv) On 15 August 2002, the Group entered into a shareholder agreement with a brother-in-law of Mr. Chan Chun Keung, an executive director of the Company, for the establishment of a jointly-controlled entity, Best Base Investments Limited (“Best Base”), in which a 50% equity interest was contributed by the Group at a cash consideration of HK\$5,000. As at 31 March 2003, the Group had a shareholders’ loan granted to Best Base of HK\$3,164,000, which is unsecured, interest-free and has no fixed terms of repayment.
- (v) On 10 September 2002, the Group entered into another shareholder agreement with a brother-in-law of Mr. Chan Chun Keung, an executive director of the Company, for the acquisition of a 50% equity interest in United Force Development Limited (“United Force”), at a cash consideration of HK\$5,000. As at 31 March 2003, the Group had a shareholders’ loan granted to United Force of HK\$17,020,000, which is unsecured, interest-free and has no fixed terms of repayment.
- (vi) On 7 February 2003, Bravo Industrial Limited, a wholly-owned subsidiary of the Company acquired a 10.24% equity interest and shareholders’ loan of US\$1,156,000 (approximately HK\$9,016,800) in Online from Skyriver, a company beneficially owned by Mr. Chan Chun Keung, an executive director of the Company, for a consideration of HK\$45 million. Online is a subsidiary of Shougang Concord Century Holdings Limited, a company incorporated in Hong Kong and whose shares are listed on the Stock Exchange, and is engaged in the manufacturing and sale of steel cords for tyres in the PRC through its wholly-owned subsidiary, Jiaxing Eastern Steel Cord Co., Ltd. (notes 18 and 28(a)(i)).

The transaction constituted a disclosable and connected transaction under the Listing Rules and was approved by shareholders in a special general meeting on 24 March 2003. The transaction was completed and became unconditional thereafter.

- (vii) In last year, the Company entered into a conditional sale and purchase agreement (the “Agreement”) with For Good Investments Limited, a company beneficially owned by Mr. Chan Chun Keung, an executive director of the Company. Pursuant to the Agreement, among other things, the Company agreed conditionally to acquire an indirect 27% attributable interest in the Power Plant located in the Fujian Province, the PRC, for a cash consideration of HK\$90 million.

The transaction constituted a disclosable and connected transaction under the Listing Rules and was approved by shareholders in a special general meeting on 17 August 2001. The transaction was completed and became unconditional thereafter.

NOTES TO FINANCIAL STATEMENTS (Continued)

31 March 2003

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 July 2003.