

NOTES TO FINANCIAL STATEMENTS

31 December 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 period, 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 Fujian Province, in the People's Republic of China (the "PRC").

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current period's financial statements. This SSAP prescribes 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 this SSAP are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the period.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, 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.

The financial year end date of the Company was changed from 31 March to 31 December with effect from 25 August 2003. These financial statements cover a period of nine months from 1 April 2003 to 31 December 2003. Accordingly, the comparative amounts presented for the consolidated profit and loss account, consolidated statement of changes in equity, consolidated cash flow statement and related notes are not for a comparable time period.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period ended 31 December 2003. The results of subsidiaries acquired or disposed of during the period 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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies (Continued)

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates (Continued)

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.

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 17 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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 to be incurred to completion and disposal.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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; and
- (c) 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.

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.

NOTES TO FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 bye-laws 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 period, 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 period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

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.

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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 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 period (year ended 31 March 2003: Nil).

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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	
	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
Segment revenue:								
Sales to external customers	27,763	39,549	-	4,242	-	-	27,763	43,791
Other revenue and gains	195	592	-	202	21,717	-	21,912	794
Total	27,958	40,141	-	4,444	21,717	-	49,675	44,585
Segment results	(67)	193	(2,243)	(4,671)	20,003	(7,020)	17,693	(11,498)
Unallocated other revenue and gains							1,278	1,486
Unallocated expenses							(7,841)	(4,938)
Profit/(loss) from operating activities							11,130	(14,950)
Finance costs							(751)	(1,380)
Share of profits and losses of associates					25,728	12,815	25,728	12,815
Amortisation of goodwill on acquisition of associates					(3,069)	(4,093)	(3,069)	(4,093)
							22,659	8,722
Profit/(loss) before tax							33,038	(7,608)
Tax							(8,611)	2,255
Profit/(loss) before minority interests							24,427	(5,353)
Minority interests							761	(83)
Net profit/(loss) from ordinary activities attributable to shareholders							25,188	(5,436)

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Garments		Leather, fur and garment accessories		Others		Consolidated	
	31 December 2003	31 March 2003	31 December 2003	31 March 2003	31 December 2003	31 March 2003	31 December 2003	31 March 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	13,380	16,891	1,963	9,742	5,130	46,428	20,473	73,061
Interests in jointly- controlled entities							59,491	20,194
Interests in associates	-	-	-	-	181,794	168,146	181,794	168,146
Unallocated assets							25,130	7,224
Total assets							286,888	268,625
Segment liabilities	4,140	3,167	-	-	748	4,763	4,888	7,930
Unallocated liabilities							24,136	27,158
Total liabilities							29,024	35,088
Other segment information:								
Depreciation	448	538	388	554	-	-	836	1,092
Amortisation of goodwill	-	-	-	-	3,069	4,093	3,069	4,093
Other non-cash expenses	-	150	2,243	71	-	-	2,243	221
Unallocated non-cash expenses	-	-	-	-	-	-	152	478
Capital expenditure	58	2,566	4	2,935	-	-	62	5,501

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (Continued)

(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		Australia		Israel		Others		Consolidated	
	Period from		Period from		Period from		Period from		Period from		Period from	
	1 April	Year	1 April	Year	1 April	Year	1 April	Year	1 April	Year	1 April	Year
	2003	ended	2003	ended	2003	ended	2003	ended	2003	ended	2003	ended
	to 31	December	to 31	December	to 31	December	to 31	December	to 31	December	to 31	December
	2003	31 March	2003	31 March	2003	31 March	2003	31 March	2003	31 March	2003	31 March
	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	9,395	11,560	155	4,453	5,484	8,333	6,921	10,556	5,808	8,889	27,763	43,791
Other segment information:												
Segment assets	40,195	28,594	244,815	234,836	1,063	1,558	407	1,974	408	1,663	286,888	268,625
Capital expenditure	62	4,369	-	1,132	-	-	-	-	-	-	62	5,501

NOTES TO FINANCIAL STATEMENTS

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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	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	HK\$'000	HK\$'000
Turnover		
Sale of goods	27,763	43,791
Other revenue		
Bad debts recovered	–	202
Interest income	30	556
Others	1,443	1,522
	1,473	2,280
Gains		
Gain on disposal of a long term investment (<i>note 17</i>)	18,911	–
Net realised gains on trading of short term listed equity investments	2,703	–
Net unrealised holding gains on short term listed equity investments	103	–
	21,717	–
	23,190	2,280

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6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	Group	
		Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
		HK\$'000	HK\$'000
Cost of inventories sold		26,504	37,882
Auditors' remuneration		523	490
Depreciation	13	836	1,092
Minimum lease payments under operating leases in respect of land and buildings		721	1,227
Loss on disposal of fixed assets		–	71
Exchange losses, net		92	89
Staff costs (directors' remuneration included – note 7):			
Salaries		3,292	6,744
Pension scheme contributions*		213	213
		3,505	6,957
Provision for doubtful debts		2,243	150
Bad debts written off		152	382
Loss on disposal of subsidiaries	28	–	478
Net realised losses on trading of short term listed equity investments		–	4,558
Net unrealised holding losses on short term listed equity investments		–	52

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

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7. DIRECTORS' REMUNERATION

Details of the remuneration of the directors of the Company for the period disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	Period from	Year ended
	1 April 2003 to	31 March
	31 December	2003
	2003	2003
	HK\$'000	HK\$'000
Fees:		
Independent non-executive directors	100	40
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	940	1,306
Bonuses	87	1,100
Pension scheme contributions	35	49
	1,062	2,455
	1,162	2,495

There were no other emoluments paid or payable to the independent non-executive directors for the period (year ended 31 March 2003: Nil).

The remuneration of each director fell within the nil to HK\$1,000,000 band for the period ended 31 December 2003 and the year ended 31 March 2003.

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the period (year ended 31 March 2003: Nil).

No share options were granted to the directors of the Company during the period (year ended 31 March 2003: Nil).

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8. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	351	1,378
Pension scheme contributions	9	36
	360	1,414

No share options were granted to the remaining non-director, highest paid employee in respect of his services to the Group (year ended 31 March 2003: Nil).

9. FINANCE COSTS

	Group	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	HK\$'000	HK\$'000
Interest on:		
Bank loans wholly repayable within five years	391	860
Bank loans wholly repayable beyond five years	360	520
	751	1,380

NOTES TO FINANCIAL STATEMENTS

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10. TAX

	Group	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	HK\$'000	HK\$'000
Overprovision in prior years	–	(3,564)
Share of tax attributable to associates	8,611	1,309
Tax charge/(credit) for the period/year	8,611	(2,255)

No provisions for profits tax has been made as the Group did not generate any assessable profits/has available tax losses brought forward from prior years to offset the assessable profits generated during the period (year ended 31 March 2003: Nil). The increased Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the period ended 31 December 2003.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – Period from 1 April 2003 to 31 December 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	2,868		30,170		33,038	
Tax at the statutory tax rate	502	17.5	9,956	33.0	10,458	31.7
Lower tax rate for specific provinces or local authority	–	–	(2,715)	(9.0)	(2,715)	(8.2)
Adjustments in respect of current tax of previous periods	–	–	1,172	3.9	1,172	3.5
Income not subject to tax	(3,310)	(115.4)	–	–	(3,310)	(10.0)
Expenses not deductible for tax	2,913	101.6	198	0.7	3,111	9.4
Tax losses not recognised	378	13.2	–	–	378	1.1
Tax losses utilised from previous periods	(483)	(16.9)	–	–	(483)	(1.5)
Tax charge at the Group's effective rate	–	–	8,611	28.6	8,611	26.0

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10. TAX (Continued)

Group – Year ended 31 March 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(25,577)		17,969		(7,608)	
Tax at the statutory tax rate	(4,092)	16.0	5,930	33.0	1,838	(24.2)
Lower tax rate for specific provinces or local authority	–	–	(4,582)	(25.5)	(4,582)	60.2
Adjustments in respect of current tax of previous periods	(3,564)	13.9	49	0.3	(3,515)	46.2
Income not subject to tax	(5)	–	–	–	(5)	0.1
Expenses not deductible for tax	3,432	(13.4)	(88)	(0.5)	3,344	(44.0)
Tax losses not recognised	665	(2.6)	–	–	665	(8.7)
Tax charge/(credit) at the Group's effective rate	(3,564)	13.9	1,309	7.3	(2,255)	29.6

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

The net loss from ordinary activities attributable to shareholders for the period ended 31 December 2003 dealt with in the financial statements of the Company, was HK\$643,000 (year ended 31 March 2003: HK\$1,344,000) (note 27(b)).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the period of HK\$25,188,000 (year ended 31 March 2003: net loss of HK\$5,436,000), and the weighted average of 376,053,523 (year ended 31 March 2003 (restated): 375,014,000) ordinary shares in issue during the period, as adjusted for the share consolidation on the basis of every 20 ordinary shares of the Company of HK\$0.01 each into one ordinary share of HK\$0.20 each (the "Share Consolidation") (note 25(b)).

No diluted earnings/(loss) per share have been shown for the current period and the prior year because the exercise price of the share options outstanding during the period/year was higher than the average market price of the Company's shares and, accordingly, there was no dilutive effect on the basic earnings/(loss) per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

13. FIXED ASSETS

Group

	Furniture, fixtures, equipment and leasehold improvements	Motor vehicles	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:				
At 1 April 2003	1,407	1,518	2,891	5,816
Additions	62	–	–	62
Write off	(133)	(248)	(490)	(871)
At 31 December 2003	1,336	1,270	2,401	5,007
Accumulated depreciation:				
At 1 April 2003	431	433	925	1,789
Provided during the period	286	190	360	836
Write off	(133)	(248)	(490)	(871)
At 31 December 2003	584	375	795	1,754
Net book value:				
At 31 December 2003	752	895	1,606	3,253
At 31 March 2003	976	1,085	1,966	4,027

Certain of the Group's plant and machinery, which had an aggregate net book value at the balance sheet date of approximately HK\$1,304,000 (31 March 2003: HK\$1,605,000) were pledged to secure the Group's banking facilities (note 23(b)(v)).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

14. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	82,058	82,058
Due from subsidiaries	416,233	412,100
Due to subsidiaries	(95,217)	(95,217)
	403,074	398,941
<i>Less: Provision for impairment</i>	<i>(176,724)</i>	<i>(176,724)</i>
	226,350	222,217

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 period 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 December 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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

14. 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				
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
Grand Gain International Limited	Hong Kong	HK\$2	100	Provision of management services
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

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Loans to jointly-controlled entities	59,491	20,194

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/ registration 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	Investment holding
United Force Development Limited*	Corporate	Hong Kong/ Mainland China	50	50	50	Investment holding
廈門梧村汽車站開發有限公司*	Corporate	PRC/ Mainland China	35	28.6	35	Property development
沈陽置力房產開發有限公司*	Corporate	PRC/ Mainland China	47.5	40	47.5	Property development

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Included in the Group's interests in jointly-controlled entities is the loans to United Force Development Limited and its subsidiary, 沈陽置力房產開發有限公司 (collectively the "United Force Group") which, in the opinion of the directors, is material in the context of the Group's financial statements. Extracts of the audited consolidated balance sheet and audited consolidated profit and loss account of the United Force Group for the period from 1 April 2003 to 31 December 2003 are set out below:

	Group	
	Period from 1 April 2003 to 31 December 2003 HK\$'000	Year ended 31 March 2003 HK\$'000
United Force Group		
Operating results:		
Turnover	–	–
Loss before and after tax	(364)	(136)
Net loss attributable to shareholders	(364)	(136)
	31 December 2003 HK\$'000	31 March 2003 HK\$'000
Financial position:		
Non-current assets	71,388	70,000
Current assets	30,575	17,589
Non-current liabilities	(94,588)	(83,111)
Current liabilities	(7,678)	(4,417)
	(303)	61

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN ASSOCIATES

	Group	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Share of net assets	121,836	104,719
Unamortised goodwill on acquisition	59,850	62,919
	181,686	167,638
Due from an associate	108	508
	181,794	168,146

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

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
Indirectly held				
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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN ASSOCIATES (Continued)

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:

	Group	
	Period from	Year ended
	1 April 2003 to	31 March
	31 December	2003
	2003	2003
	HK\$'000	HK\$'000
Operating results:		
Turnover	147,134	116,537
Profit before tax	58,473	29,124
Profit after tax	38,903	26,149
Net profit attributable to the Group	17,117	11,506
	31 December	31 March
	2003	2003
	HK\$'000	HK\$'000
Financial position:		
Non-current assets	338,635	354,930
Current assets	124,919	97,139
Non-current liabilities	(64,467)	(107,707)
Current liabilities	(106,166)	(91,038)
Minority interests	(16,020)	(15,326)
	276,901	237,998

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN ASSOCIATES (Continued)

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	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Cost:		
At beginning of period/year and at end of period/year	69,577	69,577
Accumulated amortisation:		
At beginning of period/year	6,658	2,565
Provided during the period/year	3,069	4,093
	9,727	6,658
Net book value:		
At end of period/year	59,850	62,919

17. LONG TERM INVESTMENT

	Group	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	39,207

On 7 October 2003, Bravo Industrial Limited ("Bravo"), a wholly-owned subsidiary of the Company, disposed of its entire 10.24% equity interest and a shareholders' loan of US\$541,385 (approximately HK\$4,223,000) in Online Investments Limited ("Online") to Clear Vision Investments Limited ("Clear Vision") for a cash consideration of HK\$58 million. Clear Vision is a wholly-owned subsidiary of Shougang Concord Century Holdings Limited ("Shougang Concord"), a company incorporated in Hong Kong and listed on the Stock Exchange. Online is a subsidiary of Shougang Concord and is engaged in the manufacturing and sale of steel cords for tyres in the PRC through its wholly-owned subsidiary, Jiaying Eastern Steel Cord Co., Ltd. (note 32(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

18. INVENTORIES

	Group	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Raw materials	161	2,148
Work in progress	1,205	–
Finished goods	72	484
	1,438	2,632

None of the above inventories was carried at net realisable value at 31 December 2003 (31 March 2003: Nil).

19. 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	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Current – 90 days	6,195	11,552
91 – 180 days	1,847	563
Over 180 days	4,029	1,502
	12,071	13,617
Less: Provisions	(3,136)	(893)
	8,935	12,724

NOTES TO FINANCIAL STATEMENTS

31 December 2003

20. SHORT TERM INVESTMENTS

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

The market value of the Group's short term investments at the date of approval of these financial statements was approximately HK\$4,140,000 (31 March 2003: HK\$3,269,000).

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group		Company	
		31 December 2003	31 March 2003	31 December 2003	31 March 2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances		20,467	902	103	113
Time deposits		4,644	6,322	–	4,806
		25,111	7,224	103	4,919
Less: Pledged time deposits for trade finance facilities	23	(1,521)	(1,517)	–	–
Cash and cash equivalents		23,590	5,707	103	4,919

22. 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	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Current – 90 days	3,558	6,006
91 days – 180 days	67	597
Over 180 days	339	63
	3,964	6,666

NOTES TO FINANCIAL STATEMENTS

31 December 2003

23. INTEREST-BEARING BANK LOANS

	Group	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Bank loans repayable:		
Within one year	9,014	10,534
In the second year	553	1,200
In third to fifth years, inclusive	1,259	1,780
Beyond five years	6,885	7,219
	17,711	20,733
Portion classified as current liabilities	(9,014)	(10,534)
Non-current portion	8,697	10,199
Analysed as follows:		
Secured	8,853	11,608
Unsecured	8,858	9,125
	17,711	20,733

(a) The Group's trade finance facilities amounting to HK\$15,000,000 (31 March 2003: HK\$15,000,000), of which HK\$9,210,000 (31 March 2003: HK\$9,262,000) was utilised at the balance sheet date are secured by the pledge of certain of the Group's time deposits amounting to HK\$1,521,000 (31 March 2003: HK\$1,517,000).

(b) The Group's banking facilities at 31 December 2003 were secured by:

- (i) corporate guarantees executed by the Company;
- (ii) legal charges over the Group's time deposits amounting to approximately HK\$1,521,000 (31 March 2003: HK\$1,517,000) (note 21);
- (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\$1,210,000 (31 March 2003: HK\$700,000) in aggregate and security over deposits of HK\$700,000 (31 March 2003: HK\$500,000) in aggregate executed by certain directors of a subsidiary and the spouse of one of the directors; and

NOTES TO FINANCIAL STATEMENTS

31 December 2003

23. INTEREST-BEARING BANK LOANS (Continued)

- (v) 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\$1,304,000 (31 March 2003: HK\$1,605,000) (note 13).

24. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK\$7,736,000 (31 March 2003: HK\$7,700,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (31 March 2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL

Shares

	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
<i>Authorised:</i>		
1,000,000,000 (31 March 2003: 20,000,000,000) ordinary shares of HK\$0.20 (31 March 2003: HK\$0.01) each	200,000	200,000
<i>Issued and fully paid:</i>		
375,862,614 (31 March 2003: 7,522,252,284) ordinary shares of HK\$0.20 (31 March 2003: HK\$0.01) each	75,173	75,223

NOTES TO FINANCIAL STATEMENTS

31 December 2003

25. SHARE CAPITAL (Continued)

Shares (Continued)

During the period, the movements in share capital were as follows:

(a) *Repurchase of shares*

In October 2003, prior to the Share Consolidation in (b) below, the Company repurchased and cancelled 5,000,000 of its ordinary shares of HK\$0.01 each on the Stock Exchange at a total consideration of HK\$100,000.

The premium of HK\$50,000 paid on the repurchase of such shares was debited to the share premium account and an amount of HK\$50,000 was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 27(b) to the financial statements.

(b) *Share Consolidation*

Pursuant to the ordinary resolution passed in a special general meeting on and effective from 16 December 2003, the Company consolidated all the issued and unissued ordinary shares of the Company on the basis of every 20 ordinary shares of HK\$0.01 each into one ordinary share of HK\$0.20 each. The authorised capital of the Company was adjusted from HK\$200,000,000 divided into 20,000,000,000 ordinary shares of HK\$0.01 each to 1,000,000,000 ordinary shares of HK\$0.20 each, and the issued share capital was also adjusted from HK\$75,173,000 divided into 7,517,252,284 ordinary shares of HK\$0.01 each to HK\$75,173,000 divided into 375,862,614 ordinary shares of HK\$0.20 each. The consolidated shares rank pari passu in all respects with the then issued share capital of the Company. Further details of the Share Consolidation are also set out in a circular of the Company dated 24 November 2003.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

25. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of the transactions with reference to the above movements in the issued share capital of the Company is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
	'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	7,416,002	74,160	149,740	223,900
Share options exercised	106,250	1,063	637	1,700
Share issue expenses	–	–	(6)	(6)
At 31 March 2003 and 1 April 2003	7,522,252	75,223	150,371	225,594
Shares repurchased and cancelled (note 25(a))	(5,000)	(50)	(50)	(100)
	7,517,252	75,173	150,321	225,494
Consolidation of 20 ordinary shares of HK\$0.01 each into one ordinary share of HK\$0.20 each (note 25(b))	(7,141,389)	–	–	–
At 31 December 2003	375,863	75,173	150,321	225,494

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

26. SHARE OPTION SCHEME

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). 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

31 December 2003

26. SHARE OPTION SCHEME (Continued)

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

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options		Exercise price of share options HK\$
	At 1 April 2003	Adjusted during the period	At 31 December 2003		From	To	
		(note (i))		(note (ii))			(note (iii))
Directors							
Mr. Chan Chun Keung	64,238,750	(64,238,750)	–	4 January 2001	16 January 2001	15 January 2006	0.016
	–	3,211,937	3,211,937	4 January 2001	16 January 2001	15 January 2006	0.32
Mr. Chau On Ta Yuen	21,250,000	(21,250,000)	–	4 January 2001	16 January 2001	15 January 2006	0.016
	–	1,062,500	1,062,500	4 January 2001	16 January 2001	15 January 2006	0.32
Mr. Dominic Lai*	5,312,500	(5,312,500)	–	4 January 2001	16 January 2001	15 January 2006	0.016
	–	265,625	265,625	4 January 2001	16 January 2001	15 January 2006	0.32
Mr. Chan Kam Man*	5,312,500	(5,312,500)	–	4 January 2001	16 January 2001	15 January 2006	0.016
	–	265,625	265,625	4 January 2001	16 January 2001	15 January 2006	0.32
	96,113,750		4,805,687				
Other employees							
In aggregate	51,573,750	(51,573,750)	–	4 January 2001	16 January 2001	15 January 2006	0.016
	–	2,578,688	2,578,688	4 January 2001	16 January 2001	15 January 2006	0.32
	147,687,500		7,384,375				

* These two directors resigned as the Company's independent non-executive directors subsequent to the balance sheet date on 31 March 2004.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

26. SHARE OPTION SCHEME (Continued)

Notes:

- (i) Adjusted for the Share Consolidation (note 25(b)).
- (ii) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (iii) 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.

At the balance sheet date, the Company had 7,384,375 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 7,384,375 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 period and the prior year are presented in the consolidated statement of changes in equity on page 22 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

27. RESERVES (Continued)

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	149,740	–	2,643	198	152,581
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)
At 31 March 2003 and 1 April 2003	150,371	–	2,643	(1,199)	151,815
Repurchase of shares (note 25(a))	(50)	50	–	(50)	(50)
Net loss for the period	–	–	–	(643)	(643)
At 31 December 2003	150,321	50	2,643	(1,892)	151,122

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.

NOTES TO FINANCIAL STATEMENTS

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28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	Note	Group	
		Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
		HK\$'000	HK\$'000
Net assets disposed of:			
Fixed assets		–	1,116
Cash and bank balances		–	2,111
Prepayments, deposits and other receivables		–	5
Other payables and accruals		–	(10)
Minority interests		–	(1,244)
		–	1,978
Loss on disposal of subsidiaries	6	–	(478)
		–	1,500
Satisfied by:			
Cash		–	1,500

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

	Group	
	Period from 1 April 2003 to 31 December 2003	Year ended 31 March 2003
	HK\$'000	HK\$'000
Cash consideration	–	1,500
Cash and bank balances disposed of	–	(2,111)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	(611)

The results of the subsidiaries disposed of in the prior year had no significant impact on the Group's consolidated turnover or loss after tax for that year.

NOTES TO FINANCIAL STATEMENTS

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

	Group	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Within one year	771	652
In the second to fifth years, inclusive	640	683
	1,411	1,335

The Company did not have significant lease commitments at the balance sheet date (31 March 2003: Nil).

30. CONTINGENT LIABILITIES

	Group	
	31 December 2003	31 March 2003
	HK\$'000	HK\$'000
Bills discounted with recourse	911	1,043

At 31 December 2003, the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries in an aggregate amount of HK\$28,830,000 (31 March 2003: HK\$28,830,000), of which approximately HK\$18,800,000 (31 March 2003: HK\$20,733,000) 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 23(b) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. CONNECTED AND/OR RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with connected and/or related parties during the period and in the prior year:

- (a) On 7 February 2003, the Group acquired a 10.24% equity interest and shareholders' loan of US\$1,156,000 (approximately HK\$9,017,000) in Online from Skyriver (B.V.I.) Limited, a company beneficially owned by Mr. Chan Chun Keung ("Mr. Chan"), an executive director of the Company, for a consideration of HK\$45 million. Online is a subsidiary of Shougang Concord 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. (note 17).

During the period ended 31 December 2003, approximately HK\$4,794,000 of the shareholders' loan was settled by Online to the Group. In addition, on 7 October 2003, the Group disposed of its entire 10.24% equity interest and the remaining shareholders' loan of US\$541,385 (approximately HK\$4,223,000) in Online to Clear Vision for a cash consideration of HK\$58 million (the "Disposal").

The Disposal constituted a disclosable and connected transaction under the Listing Rules and was approved by the independent shareholders at a special general meeting held on 25 September 2003. The transaction was completed and became unconditional thereafter.

- (b) During the period, certain directors of a subsidiary and the spouse of one of the directors executed joint and personal guarantees and legal charges on certain of their personal assets for certain general banking facilities of a subsidiary (note 23).
- (c) 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 prior years. The amount advanced is unsecured, interest-free and has no fixed terms of repayment. The amount due from the director of Royalink was approximately HK\$0.9 million (31 March 2003: approximately HK\$1.9 million) at 31 December 2003.
- (d) On 15 August 2002, the Group entered into a shareholder agreement with a brother-in-law of Mr. Chan 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 December 2003, the Group had a shareholders' loan granted to Best Base of HK\$12,219,000 (31 March 2003: HK\$3,169,000), which is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

32. CONNECTED AND/OR RELATED PARTY TRANSACTIONS (Continued)

- (e) On 10 September 2002, the Group entered into another shareholder agreement with a brother-in-law of Mr. Chan 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 December 2003, the Group had a shareholders' loan granted to United Force of HK\$47,272,000 (31 March 2003: HK\$17,025,000), which is unsecured, interest-free and has no fixed terms of repayment.
- (f) During the year ended 31 March 2003, the Group entered into a loan agreement with Concade, which is owned by the Group, Mr. Chan, 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 that year.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2004.