

Notes to the Financial Statements

For the Year Ended 31 December 2003

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Profit Harbour Investments Limited ("Profit Harbour"), a company which is incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 27.

As announced by the Company on 17 June 2003, following allegations about certain directors of the Company, two receivers were appointed by the High Court of Hong Kong ("High Court") on 17 June 2003 (the "Receivers") to assume the power to manage the affairs of the Company.

In August 2003, Profit Harbour acquired 63.19% interest in the Company and became its ultimate holding company. On 26 April 2004, the present executive directors of the Company were appointed and on 2 July 2004, the powers to manage the affairs of the Company were returned to the present directors (the "Directors") after the discharge of the Receivers.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Following the assumption of powers to manage the affairs of the Company on 2 July 2004, the Directors have found that the Group's accounting records and supporting vouchers for the year ended 31 December 2003 were incomplete. Accordingly, the financial statements of the Company and of the Group for the year ended 31 December 2003 have been prepared on the following bases:

(A) Financial information provided by the Receivers

The financial statements have been prepared based on the management accounts prepared by the Receivers. The Receivers prepared the management accounts on the basis of the information available to them, i.e. unaudited management accounts of the Group as at 30 April 2003, vouchers prepared by the Group's former employees as well as the Group's books and records seized by Independent Commission Against Corruption on or about 1 June 2003 and subsequently made available to the Receivers. However, the Receivers were not in a position to verify the validity or authenticity of any of such information or records made available to them. In light of the above, the Receivers are unable to give representation that all transactions affecting the Group have been included in the management accounts and the management accounts present a true and fair view of the Group's financial position as of the date presented. The Receivers therefore disclaim all liabilities in respect of the management accounts of the Group and in relation to the affairs of the Group as of the date presented.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

(A) Financial information provided by the Receivers *(Continued)*

In addition, the Receivers had only limited access to the books and records of certain of the Company's subsidiaries, Park Well International Group Limited ("Park Well") and its subsidiaries (the "Park Well Group"). Accordingly, the management accounts of Park Well Group as at 31 March 2003 were used by the Receivers in the preparation of the Group's management accounts for the year ended 31 December 2003 because Park Well Group's management accounts for the period from 1 April 2003 to 31 December 2003 were not available to the Receivers.

(B) The disclosure of litigation and contingent liabilities and related party disclosures as set out in notes 23 and 25, respectively, is based on press announcements and/or circulars made by the Company prior to the appointment of the Receivers and those made by the Receivers following their appointment.

(C) In the absence of complete books and records, the Directors are unable to quantify the effect and make appropriate disclosures in respect of deferred taxation in accordance with the requirements of Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants ("HKSA").

(D) Due to the limited access to the books and records of Park Well Group, the Directors are unable to quantify the depreciation and amortisation charge for Park Well Group's property, plant and equipment for the year ended 31 December 2003 and make appropriate disclosures in accordance with the requirements of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the HKSA.

(E) The comparative figures have been extracted from the financial statements for the year ended 31 December 2002. However, as disclosed in the Company's announcement dated 16 June 2003, the former executive directors of the Company indicated that (i) they required extra time to consider whether the recent events as defined in that announcement would affect the truth and fairness of the financial statements for the year ended 31 December 2002 and (ii) until such time as the effect of the recent events on the financial statements for the year ended 31 December 2002 could be determined, reliance should not be placed on such financial statements or on the auditors' report thereon. In addition, the financial statements for the year ended 31 December 2002 have not been adopted by members in general meeting.

Against the above background, the Directors are unable to satisfy themselves as to whether the financial statements are free from material misstatement.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) which is one of the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKSA. The term of HKFRS is inclusive of Statements of Standard Accounting Practice and Interpretations approved by the HKSA. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

As explained in note 2(C), in light of the incomplete books and records maintained by the Group for the year ended 31 December 2003, the Directors are unable to quantify the effect and make appropriate disclosures in respect of the adoption of SSAP 12 (Revised).

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Investment in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the shorter of the term of the lease, or 50 years
Buildings	Over the shorter of the term of the lease, or 50 years
Plant and machinery	12%
Furniture, fixtures and equipment	20 - 33 ¹ / ₃ %

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

Payments to retirement benefits schemes are charged as an expense as they fall due.

5. TURNOVER

Turnover represents the amount received and receivable for goods sold by the Group to outside customers, less returns and allowances for the year, and is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Continuing operations:		
Trading – base metals	53,827	346,072
– fabric	8,371	52,567
Others	–	3,129
	<u>62,198</u>	<u>401,768</u>
Discontinued operations:		
Fabric processing	–	1,632
Manufacture and sale of snack food	–	349
	<u>62,198</u>	<u>403,749</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions – trading in base metals and trading in fabric. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Continuing operations:

Trading in base metals	–	trading in base metals
Trading in fabric	–	trading in fabric

Discontinued operations:

Fabric processing	–	processing of raw fabric and the sale of finished fabric
Snack food	–	manufacture and sale of potato chips

Segment information about these businesses is presented below.

2003

RESULTS	Continuing operations		Discontinued operations (note 7)		Consolidated
	Trading in base metals	Trading in fabric	Fabric processing	Snack food	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
External sales	<u>53,827</u>	<u>8,371</u>	<u>–</u>	<u>–</u>	<u>62,198</u>
RESULTS					
Segment (loss) profit	<u>(7,509)</u>	<u>81</u>	<u>–</u>	<u>–</u>	<u>(7,428)</u>
Unallocated corporate expenses					<u>(47,389)</u>
Interest on bank borrowings wholly repayable within five years					<u>(118)</u>
Loss for the year					<u><u>(54,935)</u></u>

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

BALANCE SHEET	Continuing operations		Discontinued operations (note 7)		Consolidated HK\$'000
	Trading in base metals	Trading in fabric	Fabric processing	Snack food	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
ASSETS					
Segment assets	<u>35,788</u>	<u>–</u>	<u>23,743</u>	<u>–</u>	59,531
Unallocated corporate assets					<u>17,241</u>
Consolidated total assets					<u>76,772</u>
LIABILITIES					
Segment liabilities	<u>724</u>	<u>563</u>	<u>515</u>	<u>–</u>	1,802
Unallocated corporate liabilities					<u>23,291</u>
Consolidated total liabilities					<u>25,093</u>
OTHER INFORMATION					
Capital additions					
– unallocated	–	–	–	–	2
Depreciation and amortisation					
– unallocated	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>77</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2002

RESULTS	Continuing operations			Discontinuing operations (note 7)		Consolidated HK\$'000
	Trading in base metals	Trading in fabric	Others	Fabric processing	Snack food	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
TURNOVER						
External sales	346,072	52,567	3,129	1,632	349	403,749
RESULTS						
Segment profit (loss)	4,505	(11,442)	(2)	(36,095)	(361)	(43,395)
Unallocated corporate expenses						(6,353)
Interest on bank borrowings wholly repayable within five years						(582)
Gain on disposal of subsidiaries						261
Loss before taxation						(50,069)
Taxation						(24)
Loss before minority interests						(50,093)
BALANCE SHEET						
ASSETS						
Segment assets	26,775	4,056	1,022	23,743	–	55,596
Unallocated corporate assets						39,866
Consolidated total assets						95,462
LIABILITIES						
Segment liabilities	13,170	–	1,069	515	–	14,754
Unallocated corporate liabilities						24,013
Consolidated total liabilities						38,767

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

	Continuing operations			Discontinuing operations (note 7)		Consolidated HK\$'000
	Trading in base metals	Trading in fabric	Others	Fabric processing	Snack food	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
OTHER INFORMATION						
Capital additions	145	–	1,040	–	–	1,185
Depreciation and amortisation	23	–	54	3,991	697	4,765
Impairment loss recognised in respect of property, plant and equipment	–	–	–	29,623	–	29,623
Non-cash expenses	–	12,371	926	4,437	–	17,734

Geographical segments

The following tables provide an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Contribution to loss from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	62,198	402,117	(7,428)	(7,300)
The People's Republic of China (the "PRC")	–	1,632	–	(36,095)
	62,198	403,749	(7,428)	(43,395)
Unallocated corporate expenses			(47,389)	(6,353)
Interest on bank borrowings wholly repayable within five years			(118)	(582)
Gain on disposal of subsidiaries			–	261
Loss before taxation			(54,935)	(50,069)
Taxation			–	(24)
Loss before minority interests			(54,935)	(50,093)

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	35,788	31,853	2	1,185
The PRC	23,743	23,743	–	–
	<u>59,531</u>	<u>55,596</u>	<u>2</u>	<u>1,185</u>

7. DISCONTINUING OPERATIONS

- (i) During the year ended 31 December 2002, the former directors of the Company determined to cease the Group's fabric processing operation.

The results of the fabric processing operation for the year were as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	–	1,632
Operating costs	–	(3,667)
Loss on disposal of property, plant and equipment	–	(4,437)
Impairment losses recognised in respect of property, plant and equipment	–	(29,623)
Loss from ordinary activities	<u>–</u>	<u>(36,095)</u>

During the year ended 31 December 2002, the fabric processing operation utilised HK\$1,486,000 of the Group's net operating cash flows, received HK\$248,000 in respect of investing activities and received HK\$2,365,000 in respect of financing activities.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

7. DISCONTINUING OPERATIONS (Continued)

(i) (Continued)

At the balance sheet, the carrying amounts of the assets and liabilities of the fabric processing operation are as follows:

	2003 HK\$'000	2002 HK\$'000
Total assets	<u>24,803</u>	<u>24,803</u>
Total liabilities	<u>10,562</u>	<u>10,562</u>

(ii) Pursuant to a conditional sales and purchase agreement dated 22 January 2002, the Group agreed to dispose of certain of its subsidiaries, which were engaged in the snack food operation, to Feng Lin Holdings Limited, a then substantial shareholder of the Company, for a consideration of HK\$24,600,000. The transaction was completed on 12 March 2002 (note 20).

The results of the snack food operation for the year ended 31 December 2002, which had been included in the consolidated financial statements, were as follows:

	2002 HK\$'000
Turnover	349
Operating costs	<u>(710)</u>
Loss from ordinary activities	<u>(361)</u>

8. OTHER OPERATING EXPENSES

Other operating expenses comprise the followings:

	2003 HK\$'000	2002 HK\$'000
Allowance for bad and doubtful debts	29,013	12,371
Loss on disposal of property, plant and equipment	<u>—</u>	<u>5,363</u>
	<u>29,013</u>	<u>17,734</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

9. LOSS FROM OPERATIONS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Auditors' remuneration	350	350
Staff costs, including directors' emoluments	1,173	3,145
Retirement benefits schemes contributions, net of forfeited contributions	28	66
Depreciation and amortisation	77	4,765
and after crediting:		
Interest income from bank deposits	<u>35</u>	<u>30</u>

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors fees:		
Executive directors	–	208
Independent non-executive directors	–	101
	<u>–</u>	<u>309</u>
Other emoluments of executive directors:		
Basic salaries and allowances	–	256
Retirement benefits schemes contributions	–	7
	<u>–</u>	<u>263</u>
Total emoluments	<u>–</u>	<u>572</u>

The aggregate emoluments of each of the Company's directors were below HK\$1,000,000 for each of the two years ended 31 December 2003.

The five highest paid individuals did not include any director of the Company for both years.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The aggregate emoluments of the five highest paid individuals (none of whom are directors of the Company) for the year were as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries and allowances	907	1,280
Retirement benefits schemes contributions	25	35
	<u>932</u>	<u>1,315</u>

The aggregate emoluments of each of the Company's five highest paid individuals were below HK\$1,000,000 for the year ended 31 December 2002.

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

11. TAXATION

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment.

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiary is entitled to an exemption from the PRC enterprise income tax for two years commencing from its first profit-making year of operation, followed by a 50% relief from the PRC enterprise income tax for the following three years. No provision for PRC enterprise income tax has been made in the financial statements as the Company's PRC subsidiary had no assessable profit for the current year.

As explained in note 2(C), in light of the incomplete books and records maintained by the Group for the year ended 31 December 2003, the Directors are unable to quantify the effect and make appropriate disclosures in respect of the adoption of SSAP 12 (Revised).

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK\$54,935,000 (2002: HK\$49,994,000) and on a weighted average number of 391,082,192 (2002: 241,014,247) shares in issue during the year.

Diluted loss per share has not been presented as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Furniture, fixtures and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP				
COST				
At 1 January 2003	47,578	24,985	1,015	73,578
Additions	–	–	2	2
At 31 December 2003	47,578	24,985	1,017	73,580
DEPRECIATION AND AMORTISATION AND IMPAIRMENT LOSS				
At 1 January 2003	33,030	15,790	788	49,608
Provided for the year	–	–	77	77
At 31 December 2003	33,030	15,790	865	49,685
NET BOOK VALUE				
At 31 December 2003	14,548	9,195	152	23,895
At 31 December 2002	14,548	9,195	227	23,970

The leasehold land and buildings of the Group are situated in the PRC and held under medium term land use rights.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

14. INTERESTS IN SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Unlisted investments	75,274	75,274
Amounts due from subsidiaries	109,234	65,920
	<u>184,508</u>	<u>141,194</u>
Less: Impairment loss	(138,000)	(98,000)
	<u>46,508</u>	<u>43,194</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Particulars of the Company's subsidiaries at 31 December 2003 are set out in note 27.

15. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 0 to 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade receivables – 0 to 30 days	–	26,722
Other receivables	36,046	12,260
	<u>36,046</u>	<u>38,982</u>

The balance at 31 December 2003 includes an amount of approximately HK\$35.1 million receivable from Great Center Limited. Details of this debt, and related litigation, are set out in notes 23(i) and 23(ii).

16. PLEDGE BANK DEPOSITS

The amount represented bank deposits pledged to a bank to secure general banking facilities granted to the Group at 31 December 2002. The pledge was released during the year ended 31 December 2003.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

17. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Trade payables		
0 to 30 days	–	14,046
Over 60 days	1,287	–
	<u>1,287</u>	<u>14,046</u>
Other payables	13,736	1,781
	<u>15,023</u>	<u>15,827</u>

18. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	Amount <i>HK\$'000</i>
Authorised:		
At 1 January 2002, 31 December 2002 and 31 December 2003	1,000,000,000	100,000
	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2002	200,000,000	20,000
Shares issued:		
In April 2002	33,800,000	3,380
In May 2002	6,200,000	620
In September 2002	48,000,000	4,800
	<u>88,000,000</u>	<u>8,800</u>
At 31 December 2002	288,000,000	28,800
Shares issued in March 2003 (<i>Note</i>)	125,000,000	12,500
	<u>413,000,000</u>	<u>41,300</u>
At 31 December 2003	<u>413,000,000</u>	<u>41,300</u>

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

18. SHARE CAPITAL *(Continued)*

Note:

Pursuant to a subscription agreement dated 6 March 2003, Angel Field Limited (“Angel Field”), the former substantial shareholder of the Company, subscribed for 125,000,000 shares of HK\$0.10 each in the Company at a price of HK\$0.40 per share. These new shares were approved by the independent shareholders of the Company by way of an ordinary resolution passed on 2 April 2003 and rank *pari passu* with other shares in issue in all respects. The issued price of HK\$0.40 represented approximately 3.2% to the average closing price of HK\$0.3787 per share as quoted on the Stock Exchange for the last 10 trading days up to and including 6 March 2003.

19. SHARE OPTIONS SCHEMES

The Company has the following share option schemes:

(i) The 1998 scheme

A share option scheme was adopted by the Company pursuant to a resolution passed on 10 December 1998 for the primary purpose of providing incentives to directors and eligible employees (the “1998 Scheme”), and it was for a period of 10 years ending on 9 December 2008. However, on 7 June 2002, the 1998 Scheme was terminated by shareholders of the Company pursuant to a resolution passed on that date.

Under the 1998 Scheme, the Board of Directors of the Company could grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options could be granted under the 1998 Scheme was not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders.

Options granted had to be taken up within 28 days from the date of grant, upon payment of HK\$1 per grant. Options could be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price was to be determined by the directors of the Company, and would not be less than the higher of the nominal value of the Company’s shares, and 80% of the average closing price of the shares for the five business days immediately preceding the date of grant.

No option was granted under the 1998 Scheme during the period of its operation.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

19. SHARE OPTIONS SCHEMES *(Continued)*

(ii) The 2002 scheme

A new share option scheme was adopted by the Company pursuant to a resolution passed on 7 June 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 6 June 2012 (the "2002 Scheme"). Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's share and the average closing price of the shares for the five business days immediately preceding the date of grant.

At 31 December 2002, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 9,840,000, representing 3.42% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 7 June 2002, being the date of the passing the resolution regarding the 2002 Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of the 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. Share options which were lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

19. SHARE OPTIONS SCHEMES (Continued)

(ii) The 2002 scheme (Continued)

As explained in note 2(A), in light of the incomplete books and records maintained by the Company, the Directors do not have sufficient information relating to the movements of the share options during the year ended 31 December 2003. The following movements of the share options granted to the former directors and employees have been prepared based on the circular issued by the Company dated 7 October 2003 and an announcement made by Profit Harbour dated 21 October 2003.

Name or category of participant	Date of grant (Note i)	Exercisable period (Note ii)	Exercise price HK\$	Number of share options			
				Balance as at 1 January 2003	Granted during the year	Surrendered/ lapsed during the year	Balance as at 31 December 2003
Ex-directors	28.6.2002	2.7.2002 – 1.7.2007	0.556	7,440,000	–	–	7,440,000
Ex-employees	28.6.2002	2.7.2002 – 1.7.2007	0.556	2,400,000	–	–	2,400,000
				<u>9,840,000</u>	<u>–</u>	<u>–</u>	<u>9,840,000</u>

Name or category of participant	Date of grant (Note i)	Exercisable period (Note ii)	Exercise price HK\$	Number of share options			
				Balance as at 1 January 2002	Granted during the year	Surrendered/ lapsed during the year	Balance as at 31 December 2002
Ex-directors	28.6.2002	2.7.2002 – 1.7.2007	0.556	–	7,440,000	–	7,440,000
Ex-employees	28.6.2002	2.7.2002 – 1.7.2007	0.556	–	2,400,000	–	2,400,000
				<u>–</u>	<u>9,840,000</u>	<u>–</u>	<u>9,840,000</u>

Notes:

- (i) The vesting period of share options is from the date of the grant until the commencement of the exercise period.
- (ii) The exercise price of share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

20. DISPOSAL OF SUBSIDIARIES

As referred to in note 7, on 12 March 2002 the Group discontinued its snack food operation at the time of disposal of certain subsidiaries. The net assets of these subsidiaries at the date of disposal were as follows:

	2003 HK\$'000	2002 HK\$'000
NET ASSETS DISPOSED OF		
Property, plant and equipment	–	37,528
Inventories	–	3,169
Trade and other receivables	–	8,728
Bank balances and cash	–	84
Trade and other payables	–	(3,159)
Taxation payable	–	(2,610)
Bank borrowings	–	(14,004)
Minority interests	–	(5,397)
	–	24,339
Gain on disposal of subsidiaries	–	261
	–	24,600
Total consideration satisfied by assumption of the following liabilities of the Group by the buyer (see note 25(v)):		
Trade and other payables	–	18,600
Bank borrowings	–	6,000
	–	24,600
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	–	(84)

The subsidiaries disposed of during the year ended 31 December 2002 contributed HK\$349,000 to the Group's turnover and HK\$361,000 to the Group's loss for that year.

21. MAJOR NON-CASH TRANSACTION

As settlement of the consideration for disposal of subsidiaries during the year ended 31 December 2002, the buyer assumed certain liabilities and obligations of the Group in the same amount. Further details of the disposal are set out in notes 20 and 25(v).

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

22. OPERATING LEASE COMMITMENTS

The Group as lessee	2003 HK\$'000	2002 HK\$'000
Minimum lease payments under operating leases in respect of rented premises during the year	<u>1,377</u>	<u>2,157</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	705	2,443
In the second to fifth year inclusive	<u>252</u>	<u>1,376</u>
	<u>957</u>	<u>3,819</u>

Operating lease payments represent rental payable by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term of three years.

The Company had no operating lease commitment at the balance sheet date.

23. LITIGATION AND CONTINGENT LIABILITIES

As explained in note 2(A), in light of the incomplete books and records maintained by the Group for the year ended 31 December 2003, the following information on the Group's and the Company's litigation and contingent liabilities is prepared based on press announcements and/or circulars made by the Company prior to the appointment of the Receivers and those made by the Receivers following their appointment. The Directors make no representation as to the completeness of the information disclosed.

- (i) Having obtained legal advice, the Receivers commenced legal proceedings on 2 July 2003 against Great Center Limited ("Great Center"), a company incorporated in the British Virgin Islands, for the repayment of two sums totaling US\$4.5 million (or approximately HK\$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank accounts of Merchants (Hong Kong) Limited ("Merchants HK"), a wholly-owned subsidiary of the Company, to a bank account maintained in the name of Great Center, and interest thereon, damages and costs of the legal proceedings (the "Great Center Action"). In order to prevent the dissipation of Great Center's assets, an injunction order was applied for, and successfully obtained on 30 June 2003, from the High Court to restrict Great Center from, inter alia, disposing of or otherwise dealing with or diminishing assets of Great Center up to the value of US\$4.5 million (the "Injunction Order"). The relevant bank, the lawyers of Great Center and other relevant persons have been notified of the Injunction Order. The Injunction Order remained valid up to and including 11 July 2003 on which date the Injunction Order was continued until further order or final determination of the Great Center Action.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

23. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

- (ii) The writ of summons issued on 2 July 2003 in relation to the claim against Great Center for the repayment of US\$4.5 million was amended on 10 July 2003 (the "Amended Writ") to include the claims for (i) the repayment of HK\$12.8 million remitted from the bank account of the Company to a bank account in the name of Great Center on or about 17 April 2003; and (ii) the repayment of HK\$22.0 million remitted from the bank account of the Company to a bank account in the name of Modern Shine Enterprises Limited ("Modern Shine"), a company incorporated in the British Virgin Islands, on or about 22 April 2003, interest thereon, damages and costs of legal proceedings. The sum of claims under the Amended Writ amounts to approximately HK\$69.9 million (the "Great Center Claim"). The Amended Writ also includes a bank in Hong Kong, Modern Shine, certain former executive directors, officers and employees of the Group, and all directors or authorised signatories of Great Center and Modern Shine as defendants (the "Defendants") for the purposes of seeking orders against them for the disclosure of documents and/or information. An application was made on 10 July 2003 to the High Court for an order (the "Disclosure Order") that the Defendants disclose to the Company and Merchants HK all relevant information and documents relating to the transfers of the amounts comprising the Great Center Claim. The Disclosure Order was granted by the High Court on 18 July 2003.
- (iii) As a result of the information provided to the Company and Merchants HK under the Disclosure Order, the Receivers have discovered that, together with certain funds out of the Great Center Claim, an aggregate amount of approximately HK\$37 million was transferred, by a series of transfers, by Great Center and Modern Shine to Win Victory Holdings Limited ("Win Victory"), a company incorporated in Hong Kong and Mr. Chau Ching Ngai and Ms. Mo Yuk Ping are the registered shareholders of 49% and 51%, respectively, of the issued share capital of Win Victory, without apparent legitimate commercial reason. Having obtained legal advice, the Receivers commenced legal proceedings on 23 August 2003 against Win Victory (the "Win Victory Action") for the repayment of the HK\$37 million, interest thereon, damages and costs of legal proceedings (the "Win Victory Claim"). It should be noted that should any of the amount claimed against Win Victory be recovered from Great Center and/or Modern Shine in the Great Center Claim such amounts will be taken into account in the Win Victory Action. In order to prevent the dissipation of Win Victory's assets, the Company applied for, and obtained on 22 August 2003, from the High Court an injunction order against Win Victory (the "Win Victory Injunction Order") to restrict Win Victory from, among other things, disposing of or otherwise dealing with or diminishing the value of its assets up to the value of HK\$37 million. On 29 August 2003, the Win Victory Injunction Order was continued until further order or final determination of the Win Victory Action.
- (iv) Having obtained legal advice, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds that Win Victory is unable to pay its debts and/or it is just and equitable for Win Victory to be wound up and obtained an order from the High Court on 24 September 2003, among other things, appointing Messrs. Desmond Chung Seng Chiong and Roderick John Sutton of Ferrier Hodgson Limited of 14th Floor, Hong Kong Club Building, 3A Chater Road, Hong Kong as the provisional liquidators of Win Victory. In the first instance, this order would remain valid up to and including 7 October 2003, on which date the matter will be heard again by the High Court.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

23. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

- (v) A sale and purchase agreement dated 12 April 2003 was entered into by the Company to dispose of the entire issued share capital of Park Well, a wholly owned subsidiary of the Company, to Show Goods Inc., a company incorporated in the British Virgin Islands, for a consideration of RMB15 million (the "Park Well Disposal Agreement"). Based on their own investigations, the Receivers are of the view that, despite the Park Well Disposal Agreement, the Company remains the beneficial owner of Park Well and therefore have taken steps to secure control over Park Well. Should Show Goods Inc. dispute the Receivers' view and actions, claims and losses to the Group may arise.

At 31 December 2002, the Group had discounted bills with recourse of HK\$39,270,000.

At 31 December 2002, the Company had no material contingent liability.

24. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund (MPF) scheme for all qualifying employees of its Hong Kong subsidiaries. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributed 5% of the relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Group's PRC subsidiary are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiary is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the income statement of HK\$28,000 (2002: HK\$66,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

At the balance sheet date, there was no significant forfeited contribution, which arose upon employees leaving the retirement benefits schemes and which was available to reduce the contribution payables in the future years.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

25. RELATED PARTY DISCLOSURES

As explained in note 2(A), in light of the incomplete books and records maintained by the Group for the year ended 31 December 2003, the following information on the Group's related party transactions is prepared based on press announcements and/or circulars made by the Company prior to the appointment of the Receivers and those made by the Receivers following their appointment. The Directors make no representation as to the completeness of the information disclosed.

- (i) On 21 November 2002, a sub-tenancy agreement (the "Sub-tenancy Agreement") was entered into between Worldmark (Far East) Limited ("Worldmark"), a wholly-owned subsidiary of the Company, and Profitex Investments Limited ("Profitex"), a wholly-owned subsidiary of Shanghai Land Holdings Limited ("Shanghai Land"), in respect of the sub-leasing of 2,487 square feet of the office premises located at 67th Floor, The Center, 99 Queen's Road Central, Hong Kong, by Profitex to Worldmark for a term commencing on 4 August 2002 and expiring on 19 June 2005 inclusive at the following rentals:

Period	Monthly rent <i>(approximately HK\$)</i>
4 August 2002 – 31 May 2004	74,610
1 June 2004 – 30 June 2004	63,667
1 July 2004 – 31 May 2005	44,766
1 June 2005 – 19 June 2005	28,352

A rent free period (the "Rent Free Period") of 6 months in total, by stages in an aggregate amount of HK\$447,660 had been granted by Profitex to Worldmark pursuant to a supplement agreement to the Sub-tenancy Agreement dated 17 January 2003. The first 3 months of the Rent Free Period were granted and ratified for the period from 1 September 2002 to 30 November 2002 and the remaining 3 months of Rent Free Period shall be granted for the period from 1 June 2003 to 31 August 2003.

The substantial shareholders of Shanghai Land and the Company, respectively, at the time the relevant agreements were entered into were New Nongkai Global Investments Limited and Angel Field, which were both 100% beneficially owned by Mr. Chau Ching Ngai, the chairman of Shanghai Land and the spouse of Ms. Mo Yuk Ping, former chairman of the Company.

The rent paid for the year amounted to approximately HK\$786,000 (2002: HK\$142,000). The rent charged to the income statement for the year amounted to approximately HK\$672,000 (2002: HK\$256,000) after taking into account the Rent Free Period. Worldmark, Profitex and the landlord had also entered into a guarantee and indemnity ("Guarantee and Indemnity") whereby, inter alia, Worldmark and Profitex agreed jointly and severally to observe and perform all the terms, covenants and conditions of the Tenancy Agreement entered into between the landlord and Profitex, and to guarantee the performance and observance of the Guarantee and Indemnity.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

25. RELATED PARTY DISCLOSURES *(Continued)*

- (ii) Subscription of shares in the Company by Angel Field during the year are set out in note 18.
- (iii) During the year, sums totaling approximately HK\$69.9 million were remitted from the bank accounts of the Company and Merchants HK to bank accounts maintained in the name of Great Center and Modern Shine. Of the amount, amounts totaling approximately HK\$37 million were subsequently transferred by Great Center and Modern Shine to Win Victory.
- (iv) Worldmark and Profitex also entered into a management agreement for a term of three years commencing on 1 August 2002. Pursuant to the agreement, Profitex has agreed to provide management service to Worldmark for a fee. The management fee paid for the year amounted to HK\$168,400 (2002: HK\$166,000).
- (v) Pursuant to a disposal agreement (the "Disposal Agreement") the Group disposed of its entire interest in certain subsidiaries which are principally engaged in the snack food business, to Feng Lin Holdings Limited ("Feng Lin"), a then substantial shareholder of the Company which was beneficially interested in approximately 74.48% of the issued share capital of the Company, for a consideration of HK\$24,600,000. As settlement of the consideration, Feng Lin assumed certain liabilities and obligations of the Group in the same amount. Certain former directors of the Company, namely Tsoi Hon Chung, Tsoi Chun Bun and Tsoi Chun Hung have beneficial interest in Feng Lin. Details of the Disposal Agreement were set out in the circular of the Company dated 22 February 2002. The resolution in relation to the Disposal Agreement was unanimously passed by way of a poll at the special general meeting of the Company held on 11 March 2002. Completion of the Disposal Agreement took place on 12 March 2002.

At the same time as the Disposal Agreement, a sale and purchase agreement (the "Sales and Purchase Agreement") was entered into between, amongst others, Feng Lin and Angel Field, pursuant to which Feng Lin sold 148,000,000 shares in the Company, representing 74% of the then issued share capital of the Company, to Angel Field at a consideration of approximately HK\$0.418 per share. Completion of the Sales and Purchase Agreement took place on 12 March 2002.

26. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the powers to manage the affairs of the Company were returned to the Directors after the discharge of the Receivers on 2 July 2004.

Notes to the Financial Statements (Continued)

For the Year Ended 31 December 2003

27. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Chaoyang Hua Loong Textiles and Dyeing Limited *	PRC	US\$6,000,000 registered capital	–	100	Fabric processing and manufacturing
Chinawell Holdings Limited	British Virgin Islands	US\$1 ordinary share	100	–	Investment holding
First Landmark Limited	British Virgin Islands	US\$1 ordinary share	100	–	Investment holding
Gold (Hong Kong) Limited	Hong Kong/ the PRC	HK\$2 ordinary shares	–	100	Trading
Hanson Rich Limited	British Virgin Islands	US\$1 ordinary shares	–	100	Inactive
Hillmark Limited	Hong Kong	HK\$2 ordinary shares	–	100	Holder of money lender license
Hua Loong Textiles Limited	Hong Kong	HK\$10,000 ordinary shares	–	100	Investing holding
Hua Loong Textiles Trading (Korea) Company Limited	Korea	50,000,000 Korean Won ordinary shares	–	100	Inactive
Merchants (Hong Kong) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Trading
Merchants International Limited	Hong Kong	HK\$2 ordinary shares	–	100	Inactive
Park Well International Group Limited	British Virgin Islands	US\$6 ordinary shares	100	–	Investment holding
Shanghai Merchants Trading Limited	British Virgin Islands	US\$1 ordinary shares	–	100	Inactive

Notes to the Financial Statements *(Continued)*

For the Year Ended 31 December 2003

27. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment and operations	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
V-Win Limited	Hong Kong	HK\$2 ordinary shares	100	–	Provision of secretary and nominee services
Worldmark (Far East) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Provision of management service
Ying Wing (HK) Limited	Hong Kong	HK\$10 ordinary shares	–	100	Trading in fabric

* The Company is a wholly-owned foreign enterprise established in the PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.