

# Notes To Financial Statements

31 March 2002

## 1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of investment holding, properties trading, trading of leather materials and the manufacture, trading and distribution of leather and non-leather garments and leatherware products.

The trading of leather materials and manufacture and trading of leatherware products were new businesses acquired by the Group during the year.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements.

### Basis of preparation

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

In current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001.

SSAP 14 (revised)	:	Leases (effective for accounting periods commencing on or after 1 July 2000)
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

# Notes To Financial Statements

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## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. 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 the 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 thereof.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life as follows:

Leasehold land and buildings	Over the remaining lease terms
Leasehold improvements	3 to 10 years
Plant and machinery	5 to 15 years
Furniture, fixtures, equipment and motor vehicles	3 to 5 years

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserve.

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been impairments in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

### Associate

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

The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any additional provisions for impairment in values, other than those considered to be temporary in nature, deemed necessary by the directors.

# Notes To Financial Statements

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## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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### **Associate** (continued)

Where audited financial statements of the associates are not co-terminous with those of the Group, the share of the results is arrived at from the latest audited financial statements available or unaudited management financial statements up to 31 March.

### **Goodwill**

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets acquired and is capitalised and amortised to the profit and loss account over ten years.

Negative goodwill arising on consolidation of subsidiaries represents the excess fair values ascribed to the net underlying assets acquired over the purchase consideration paid for such companies and is credited to the capital reserve in the year of acquisition.

Upon disposal of subsidiaries, the relevant portion of attributable goodwill or capital reserve is realised and taken into account in determining the gain or loss on disposal of the subsidiaries.

### **Impairment of assets**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- i) Property, plant and equipment (other than properties carried at revalued amount);
- ii) Interests in subsidiaries, associates and long term investment; and
- iii) Positive goodwill.

If any such indication exists, the recoverable amount of the asset is estimated and impairment losses, if any, are recognised in the profit and loss account except where the asset is carried at valuation, and/ or the impairment loss does not exceed the revaluation surplus arising on earlier period for that same asset, in which case it is treated as a revaluation decrease.

### **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are net of such provision.

# Notes To Financial Statements

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## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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### Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### Short term investments

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

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Properties held for resale

Properties held for resale are stated at the lower of cost and estimated net realizable value. Cost is determined by apportionment of the total land and development costs attributable to the unsold properties. Net realisable value is determined by reference to estimated sales proceeds less selling expenses, or by management estimates based on prevailing market conditions.

### 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 applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

# Notes To Financial Statements

31 March 2002

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Deferred tax

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

### Staff retirement scheme

On 1 December 2000, the Group joined a Mandatory Provident Fund ("MPF"). Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the profit and loss account as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees. The assets of the MPF are held separately from those of the Group in an independently administered fund.

### Foreign currencies

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

On consolidation, the financial statements of subsidiaries expressed in foreign currencies are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### 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) the sale of goods and properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### 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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## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

### Segmental reporting

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to the external parties.

In respect of geographical segment reporting, revenues are based on the market segments in which the customers are located. Total assets and capital expenditure are where the assets are located.

## 3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the sales value of goods supplied to customers and income from sales of properties. The amount of each significant category of revenue recognised during the year is as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sales of garments and leatherware products	97,688	143,575
Sales of leather materials	22,618	—
Sales of properties	50,211	—
	170,517	143,575

# Notes To Financial Statements

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## 3. TURNOVER AND SEGMENTAL INFORMATION (Continued)

### Primary reporting format – business segments

	Garments and leatherware products 2002	Properties trading 2002	Leather materials 2002	Inter-segment elimination 2002	Unallocated 2002	Consolidated 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	97,688	50,211	22,618	–	–	170,517
Segment result	(23,710)	1,631	679	–	–	(21,400)
Unallocated operating income and expenses						(11,997)
Loss from operating activities						(33,397)
Finance costs						(197)
Share of losses of associates	–	–	–	–	(1,090)	(1,090)
Tax						(262)
Minority interests						(2,658)
Loss attributable to shareholders						(37,604)
Depreciation for the year	1,061	–	22	–	255	1,338
Amortisation for the year	996	–	–	–	1,613	2,609
Impairment loss for the year	16,922	–	–	–	–	16,922
SEGMENT ASSETS	95,196	40,722	9,391	–	–	145,309
Interests in associates						935
Unallocated assets						28,610
Total assets						174,854
SEGMENT LIABILITIES	46,431	40,199	7,142	(40,187)	–	53,585
Unallocated liabilities						551
Total liabilities						54,136
Capital expenditure incurred during the year	5,981	–	90	–	–	6,071

The Group's turnover and results by business segment for 2001 has not been presented as all of the Group's revenues, expenses, results, assets and liabilities are primarily attributable to the manufacture, trading and distribution of garments products.

## Notes To Financial Statements

31 March 2002

**3. TURNOVER AND SEGMENTAL INFORMATION** (Continued)**Secondary reporting format – geographical segments**

The Group's business segments are managed in the People's Republic of China ("PRC"), they operate in two main geographical areas:

Hong Kong – trading and distribution of garments and leatherware products

Other parts of PRC – manufacture, trading and distribution of garments and leatherware products and properties trading

	Hong Kong		Other Parts of PRC		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	17,035	40,324	153,482	103,251	170,517	143,575
Profit/(loss) from operating activities	1,498	(18,041)	(34,895)	(23,241)	(33,397)	(41,282)
Segment assets	11,984	8,528	162,870	202,661	174,854	211,189
Capital expenditure incurred during the year	61	–	6,010	2,514	6,071	2,514



# Notes To Financial Statements

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## 4. LOSS FROM OPERATING ACTIVITIES

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

	2002	2001
	HK\$'000	HK\$'000
Auditors' remuneration	375	800
Amortisation of goodwill	2,609	1,991
Depreciation	1,338	7,080
Loss on disposal of fixed assets	–	1,568
Fixed assets written off	1,737	–
Impairment loss of goodwill (note 13)	16,922	–
Loss on disposal of subsidiaries (note 23(d))	2,050	–
Provision against inventories	–	14,817
Provision for doubtful debts	882	1,403
Operating lease rentals on leasehold land and buildings	4,943	29,457
Exchange loss, net	157	2,348
Staff costs (including directors' remuneration – note 5):		
Salaries and wages	9,049	13,767
Other benefits	386	503
Pension contributions	317	47
	<b>9,752</b>	<b>14,317</b>
Discount on redemption of convertible redeemable debentures	–	(2,000)
Gain on disposal of short term investments	–	(547)
Gain on disposal of subsidiaries (note 23(d))	–	(4,947)
Unrealised holding gain on long term investment reclassified from interests in associates (note 15)	(202)	–
Interest income	(630)	(1,766)

# Notes To Financial Statements

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## 5. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,964	3,544
Pension contributions	25	12
	<b>1,989</b>	<b>3,556</b>

The remuneration of the directors fell within the following bands:

	2002	2001
	Number of directors	Number of directors
Nil – HK\$1,000,000	2	4
HK\$1,000,001 – HK\$1,500,000	1	2
	<b>3</b>	<b>6</b>

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, no fees were paid to the executive directors (2001: Nil) and no fees or other remuneration were paid to the non-executive directors (2001: Nil).

During the year, no share options were granted to the directors.

# Notes To Financial Statements

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## 6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2001: three) directors, details of whose remuneration are set out in note 5 above. The details of the remuneration of the remaining three (2001: two) non-director, highest paid individuals are as follows:

	2002	2001
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	2,093	1,261
Pension contributions	29	2
	2,122	1,263

The remuneration of the non-director, highest paid individuals fell within the following bands:

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

## 7. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable after five years	197	352

# Notes To Financial Statements

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## 8. TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Group		
Hong Kong	262	—

No Hong Kong profits tax has been provided for the Company as it had no assessable profits for the year (2001: Nil). Hong Kong Profits Tax has been calculated at 16% of the estimated assessable profits of the subsidiaries for the year (2001: Nil). No Hong Kong profits tax has been provided for the associates as it had no assessable profits attributable to the Group for the year (2001: Nil).

Lancar Fashion (Shenzhen) Co., Ltd. ("Lancar"), the subsidiary operating in the People's Republic of China (the "PRC"), is exempt from income tax for its first two profitable years of operations, and is entitled to a 50% relief from income tax for the succeeding three years under the Income Tax Law of the PRC. At the balance sheet date, Lancar had not yet started its income tax exemption period.

There were no significant deferred tax liabilities at the balance sheet date (2001: Nil). The unprovided deferred tax asset at the balance sheet date amounted to approximately HK\$6,148,000 (2001: HK\$5,876,000) which related primarily to tax losses.

## 9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$37,604,000 (2001: HK\$41,831,000).

## 10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$37,604,000 (2001: HK\$41,831,000) and 17,665,936,000 (2001: the weighted average of 11,393,318,724) ordinary shares in issue during the year.

There is no diluted loss per share shown for either year as the effects arising from the exercise of the potential ordinary shares would have been anti-dilutive.

# Notes To Financial Statements

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## 11. FIXED ASSETS

### Group

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At beginning of year	5,945	1,065	336	10,638	17,984
Additions					
– through acquisition of subsidiaries	1,700	1,452	744	1,320	5,216
– others	–	121	2	732	855
Through disposal of subsidiaries	(5,945)	–	–	–	(5,945)
Written off	–	(855)	–	(6,797)	(7,652)
At 31 March 2002	1,700	1,783	1,082	5,893	10,458
Accumulated depreciation:					
At beginning of year	592	606	290	8,004	9,492
Through acquisition of subsidiaries	51	477	470	691	1,689
Provided during the year	98	298	149	793	1,338
Through disposal of subsidiaries	(681)	–	–	–	(681)
Written back	–	(427)	–	(5,488)	(5,915)
At 31 March 2002	60	954	909	4,000	5,923
Net book value:					
At 31 March 2002	1,640	829	173	1,893	4,535
At 31 March 2001	5,353	459	46	2,634	8,492

## Notes To Financial Statements

31 March 2002

**11. FIXED ASSETS** (Continued)**Company**

	<b>Equipment</b>
	HK\$'000
Cost:	
At beginning of year and at 31 March 2002	140
Accumulated depreciation:	
At beginning of year	46
Provided during the year	28
At 31 March 2002	74
Net book value:	
At 31 March 2002	66
At 31 March 2001	94

An analysis of the Group's leasehold land and buildings by cost is as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Medium term leasehold land and buildings situated in Hong Kong	<b>1,700</b>	5,945

At the beginning of the year, the medium term leasehold land and buildings was held by a subsidiary and was pledged to a bank for a mortgage loan as set out in note 19 to the financial statements. The medium term leasehold land and buildings was disposed of as a result of disposal of that subsidiary during the year. The medium term leasehold land and buildings as at 31 March 2002 was held by a subsidiary which was acquired by the Group during the year.

# Notes To Financial Statements

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## 12. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	<b>66,743</b>	66,743
Due from subsidiaries	<b>550,190</b>	530,956
Due to subsidiaries	<b>(540)</b>	(1,297)
	<b>616,393</b>	596,402
Less: Provision for impairment	<b>(511,664)</b>	(475,828)
	<b>104,729</b>	120,574

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Directly held					
China Elegance Holdings Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding
Indirectly held					
Billion Chain Ltd.	British Virgin Islands/ PRC	US\$1	100%	100%	Provision of management services
Brilliant Challenge (Hong Kong) Limited*	Hong Kong	HK\$1,000	60%	–	Trading of leather and leather product

## Notes To Financial Statements

31 March 2002

**12. INTERESTS IN SUBSIDIARIES** (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Indirectly held (continued)					
Charmful Challenge (Asia) Limited*	Hong Kong	HK\$1,000	60%	–	Sourcing and trading of leather products
Chorex Group Limited#	British Virgin Islands	US\$1	–	100%	Investment holding
Crest Pearl Inc.	Niue	US\$1	100%	100%	Dormant
Crest Pearl Group Co. Ltd.	British Virgin Islands/ PRC	US\$1	100%	100%	Trading of garments and leatherwear
Felina International Investment Ltd.	British Virgin Islands	US\$1	100%	100%	Investment holding
Gold Billion Limited*	Samoa	US\$1	60%	–	Provision of management services and trading of leather materials
Grand Capital Enterprises Limited*	British Virgin Islands	US\$1	100%	–	Dormant
Hero Gain Limited	Hong Kong	HK\$100	100%	100%	Provision of management services



# Notes To Financial Statements

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## 12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Indirectly held (continued)					
Hugefaith Development Limited*	Hong Kong	HK\$2	60%	–	Dormant
Jade City Properties Limited#	Hong Kong	HK\$2	–	100%	Property holding
Jade Profit Enterprises Limited*	British Virgin Islands	US\$1	100%	–	Brand management
Lancar Fashion (Shenzhen) Co., Ltd.	PRC	HK\$5,000,000	100%	100%	Manufacture and trading of garments and dormant after 1 May 2001
Legend World Group Limited	British Virgin Islands	US\$100	100%	100%	Investment holding
Magnificent Song Enterprise Co., Ltd.	British Virgin Islands	US\$1	100%	100%	Investment holding
Peak Force Limited*	Hong Kong	HK\$2	100%	–	Dormant
Regent Wise International Limited	Hong Kong	HK\$10,000	100%	100%	Purchasing agent
Rothwell Services Limited	British Virgin Islands	US\$10,000	100%	100%	Dormant

## Notes To Financial Statements

31 March 2002

**12. INTERESTS IN SUBSIDIARIES** (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Indirectly held (continued)					
Shenzhen Shiqin Leather Products Company Limited*	PRC	RMB1,000,000	45%	–	Manufacture of leatherware products
Shutterry Limited	British Virgin Islands	US\$1	100%	100%	Dormant
Star Wishes Investment Limited*	British Virgin Islands	US\$1	100%	–	Dormant
Timesway Limited	British Virgin Islands/ PRC	US\$1	100%	100%	Properties trading
Unicon Spirit Development Ltd*	British Virgin Islands	US\$10	60%	–	Investment holding
Win Power International Limited	British Virgin Islands	US\$1	100%	100%	Dormant

\* Acquired during the year

# Disposed of during the year

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

On 26 September 2001, the Company announced that China Elegance Holdings Limited ("CEHL"), a wholly owned subsidiary of the Company, entered into an agreement with an independent third party (the "Vendor") to acquire 60% interests in the issued share capital of Unicon Spirit Development Ltd.

Pursuant to the Agreement, the Vendor undertakes and represents to CEHL that the consolidated profit after taxation and minority interests of Unicon Spirit Development Ltd. and its subsidiaries (before exceptional and extraordinary items) as shown in its audited financial statements for the year ending 30 September 2002 prepared in accordance with the accounting principles generally accepted in Hong Kong will not be less than HK\$10,000,000.

The agreement was completed on 10 November 2001.

# Notes To Financial Statements

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## 13. GOODWILL

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cost:		
At beginning of year	19,909	–
Additions	32,005	19,909
At 31 March	51,914	19,909
Amortisation:		
At beginning of year	1,991	–
Provided during the year	2,609	1,991
Impairment loss ( <i>Note</i> )	16,922	–
At 31 March	21,522	1,991
Net book value		
At 31 March	30,392	17,918

*Note:* The impairment loss was provided for the goodwill arising from the acquisition of a subsidiary, Legend World Group Limited, which is an investment holding company and its only major asset is its investment in 30% interest in Cyberchain Limited. The investment in Cyberchain Limited was recorded as an associate as at 31 March 2001 but was reclassified to long term investment during the year and further particulars are set out in note 15 to the financial statements. The impairment loss is estimated by the directors based on the recoverable amounts of the goodwill after considering the significant adverse change in the operation of Cyberchain Limited and its subsidiaries during the year.

## Notes To Financial Statements

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**14. INTERESTS IN ASSOCIATES**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Share of net assets/(liabilities)	<b>676</b>	(202)
Due from/(to) an associate	<b>259</b>	(2)
	<b>935</b>	(204)

The balance with an associate is unsecured, interest-free and has no fixed term of repayment.

Particulars of the Group's associates are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of incorporation/ registration and operation</b>	<b>Percentage of equity attributable to the Group</b>		<b>Principal activities</b>
			<b>2002</b>	2001	
Jointech International Limited*	Corporate	British Virgin Islands	<b>40%</b>	—	Investment Holding
Hong Kong Cable Services Co. Limited*	Corporate	Hong Kong	<b>40%</b>	—	Trading of computer hardware and software, provision of computer maintenance services and software development

\* Acquired during the year

As further explained in note 15 to the financial statements, all associates in last year are reclassified as long term investment during the year as the directors consider that significant influence can no longer be exercised on those associates.

# Notes To Financial Statements

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## 15. LONG TERM INVESTMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unquoted investment reclassified from interests in associate (note 14)	(202)	—
Share of net liabilities written back	202	—
	—	—
Corporate membership – at cost	268	—
	268	—

At 31 March 2001, the Group had an associate, Cyberchain Limited ("Cyberchain"), which is an investment holding company and its subsidiaries engages in the trading of leather goods and brand sub-licensing, and direct sales and marketing of consumer, household and fashion products. During the year, Cyberchain's major subsidiary for the brand licencing operation lost its major revenue as a result of termination of an international brand licence by the master licensor. The operating subsidiary for direct sale and marketing operation of Cyberchain also encounters operating difficulties. The directors believe that the Group can no longer exercise significant influence over the financial and operating decisions of Cyberchain and therefore the investment in Cyberchain was reclassified to long term investment during the year. An unrealized holding gain of approximately HK\$202,000 representing the share of net liabilities of Cyberchain as at 31 March 2001 was written back during the year accordingly.

## Notes To Financial Statements

31 March 2002

**16. PREPAYMENT FOR PROPERTIES UNDER DEVELOPMENT**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
At balance sheet date	–	39,091

The construction of the properties under development in Tianjin, PRC at the beginning of the year was completed and was reclassified to properties held for resale during the year.

**17. INVENTORIES**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>5,269</b>	5,349
Work in progress	<b>400</b>	479
Finished goods	<b>4,033</b>	17,331
	<b>9,702</b>	23,159

At 31 March 2002, none of the inventories included in the above was carried at net realisable value (2001: HK\$Nil).

# Notes To Financial Statements

31 March 2002

## 18. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	2002		2001	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	26,752	52	16,590	74
Four to six months	24,092	47	5,962	26
Over six months	205	1	–	–
Total after provision	51,049	100	22,552	100

The normal credit period granted by the Group to customers ranges from 90 days to 180 days.

## 19. SECURED BANK LOAN

The maturity of the bank loan is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	–	191
In the second year	–	211
In the third to fifth years, inclusive	–	775
Beyond five years	–	2,019
	–	3,196
Portion classified as current liabilities	–	(191)
Long term portion	–	3,005

At 31 March 2001, the Group's medium term leasehold land and buildings was pledged to secure the above bank loan (note 11). The secured bank loan was made available to the subsidiary which held the said property. The secured bank loan and this property was disposed of during the year as a result of the disposal of that subsidiary.

# Notes To Financial Statements

31 March 2002

## 20. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	2002		2001	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	<b>4,179</b>	<b>55</b>	8,513	73
Four to six months	<b>3,469</b>	<b>45</b>	2,099	18
Seven months to one year	–	–	1,033	9
	<b>7,648</b>	<b>100</b>	11,645	100

## 21. SHARE CAPITAL

	Company	
	2002	2001
	HK\$'000	HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<b>500,000</b>	500,000
Issued and fully paid:		
17,665,936,000 ordinary shares of HK\$0.01 each	<b>176,659</b>	176,659

### Share options

Pursuant to a share option scheme approved and adopted by the shareholders of the Company on 23 April 1996, the board of directors is empowered, at its discretion, to invite any full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any such subsidiaries, to take up options to subscribe for shares in the Company at a price of HK\$1.00 per grant of options. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time excluding, for this purpose, shares issued upon the exercise of any options granted under the share option scheme. The subscription price shall not be less than the higher of 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares.



# Notes To Financial Statements

31 March 2002

## 21. SHARE CAPITAL (Continued)

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### Share options (continued)

At the beginning of the year, there were a total of 425,013,857 share options outstanding of which (i) 55,013,857 share options were granted on 27 June 1997 and are exercisable at a price of HK\$0.537 per share; and (ii) 370,000,000 share options were granted on 20 June 2000 and are exercisable at a price of HK\$0.02416 per share. Both of these options are exercisable within 10 years from the date of grant of the options.

On 12 June 2001, 530,000,000 share options were granted to certain of the Group's employees entitling them to subscribe for a total of 530,000,000 ordinary shares at a price of HK\$0.01 per share within ten years from the date of grant of the options.

During the year, 300,293 and 370,000,000 share options granted on 27 June 1997 and 20 June 2000 respectively were cancelled upon the resignation of certain employees.

As a result of the above, 584,713,564 share options remained outstanding at the balance sheet date. At the balance sheet date, the exercise in full of these outstanding share options would, under the present capital structure of the Company, result in the issue of 584,713,564 additional ordinary shares and cash proceeds, before issue expenses, of approximately HK\$34,681,000.

Subsequent to the balance sheet date, 21,501,050 share options granted on 27 June 1997 which were outstanding as at 31 March 2002, were cancelled upon the resignation of certain employees. None of the share options held as at 31 March 2002 has been exercised up to the date of approval of these financial statements.

## Notes To Financial Statements

31 March 2002

**22. RESERVES****Group**

	Share premium	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2000	289,555	106,033	1	–	(376,300)	19,289
Share issue expenses	(3,937)	–	–	–	–	(3,937)
Arising from acquisition of subsidiaries	–	–	–	3,504	–	3,504
Release upon disposal of subsidiaries	–	–	–	(3,504)	–	(3,504)
Net loss for the year	–	–	–	–	(41,831)	(41,831)
At 31 March 2001 and at beginning of year	285,618	106,033	1	–	(418,131)	(26,479)
Net loss for the year	–	–	–	–	(37,604)	(37,604)
At 31 March 2002	285,618	106,033	1	–	(455,735)	(64,083)
Reserves retained by:						
Company and subsidiaries	285,618	106,033	1	–	(454,645)	(62,993)
Associates	–	–	–	–	(1,090)	(1,090)
	285,618	106,033	1	–	(455,735)	(64,083)

# Notes To Financial Statements

31 March 2002

## 22. RESERVES (Continued)

### Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2000	289,555	172,576	(442,842)	19,289
Share issue expenses	(3,937)	–	–	(3,937)
Net loss for the year	–	–	(41,831)	(41,831)
At 31 March 2001 and at beginning of year	285,618	172,576	(484,673)	(26,479)
Net loss for the year	–	–	(37,604)	(37,604)
At 31 March 2002	285,618	172,576	(522,277)	(64,083)

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiary acquired over the nominal value of the Company's shares issued in exchange therefor, at the time of the Group reorganisation in preparation for the listing of the Company's shares.

Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus under certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

## Notes To Financial Statements

31 March 2002

**23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Loss from operating activities	<b>(33,397)</b>	(41,282)
Interest income	<b>(630)</b>	(1,766)
Unrealised holding gain on long term investment reclassified from interests in associates	<b>(202)</b>	–
Discount on redemption of convertible redeemable debentures	–	(2,000)
Gain on disposal of short term investments	–	(547)
Depreciation	<b>1,338</b>	7,080
Amortisation of goodwill	<b>2,609</b>	1,991
Impairment loss of goodwill (note 13)	<b>16,922</b>	–
Provision against inventories	–	14,817
Provision for doubtful debts	<b>882</b>	1,403
Loss on disposal of fixed assets	–	1,568
Fixed assets written off	<b>1,737</b>	–
Loss/(gain) on disposal of subsidiaries	<b>2,050</b>	(4,947)
Decrease/(increase) in inventories	<b>23,403</b>	(6,755)
Increase in properties held for resale	<b>(2,881)</b>	–
Increase in accounts receivable	<b>(25,374)</b>	(5,706)
Decrease in prepayments, deposits and other receivables	<b>41,058</b>	606
(Decrease)/ increase in accounts payable	<b>(4,917)</b>	5,760
(Decrease)/ increase in accrued liabilities and other payables	<b>(8,069)</b>	11,007
Net cash inflow/(outflow) from operating activities	<b>14,529</b>	(18,771)

# Notes To Financial Statements

31 March 2002

## 23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Analysis of changes in financing during the year

	Share capital and share premium	Bank loan	Minority interests
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2000	360,219	3,360	–
Net cash inflow/(outflow) from financing	102,058	(164)	–
Acquisition of subsidiaries	–	–	2,969
Share of losses for the year	–	–	(7)
Disposal of subsidiaries	–	–	(2,962)
At 31 March 2001 and at beginning of year	462,277	3,196	–
Net cash outflow from financing	–	(155)	–
Acquisition of subsidiaries	–	–	5,484
Disposal of a subsidiary	–	(3,041)	–
Share of profit for the year	–	–	2,658
At 31 March 2002	462,277	–	8,142

## Notes To Financial Statements

31 March 2002

**23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT** (Continued)**(c) Acquisition of subsidiaries**

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Fixed assets	<b>3,527</b>	–
Unlisted investment	<b>268</b>	–
Interests in associates	–	2
Prepayment for properties under development	–	39,091
Cash and bank balances	<b>3,663</b>	9,997
Accounts receivable	<b>3,123</b>	–
Prepayments, deposits and other receivables	<b>2,311</b>	49,518
Stocks	<b>9,946</b>	–
Accounts payable	<b>(920)</b>	–
Accrued liabilities and other payables	<b>(8,092)</b>	(42)
Provision for taxation	<b>(113)</b>	–
Due to an associate	–	(2)
Minority interests	<b>(5,484)</b>	(2,969)
	<b>8,229</b>	95,595
Capital reserve (note 22)	–	(3,504)
Goodwill	<b>31,771</b>	19,909
	<b>40,000</b>	112,000
Satisfied by:		
Cash	<b>40,000</b>	85,000
Issue of convertible redeemable debentures	–	27,000
	<b>40,000</b>	112,000

# Notes To Financial Statements

31 March 2002

## 23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (c) Acquisition of subsidiaries (continued)

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2002	2001
	HK\$'000	HK\$'000
Cash consideration	(40,000)	(85,000)
Cash and bank balances acquired	3,663	9,997
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(36,337)	(75,003)

### (d) Disposal of subsidiaries

	2002	2001
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	5,264	–
Cash and bank balances	4	9,933
Prepayments, deposits and other receivables	3	48,669
Long term bank loan	(3,041)	–
Accrued liabilities and other payables	–	(463)
Minority interests	–	(2,962)
	2,230	(55,177)
(Loss)/gain on disposal of subsidiaries	(2,050)	4,947
Release of capital reserve (note 22)	–	(3,504)
	180	56,620
Satisfied by:		
Cash	180	8,120
Other receivable	–	48,500
	180	56,620

## Notes To Financial Statements

31 March 2002

**23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT** (Continued)**(d) Disposal of subsidiaries** (continued)

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Cash consideration	<b>180</b>	8,120
Cash and bank balances disposed of	<b>(4)</b>	(9,933)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	<b>176</b>	(1,813)

The subsidiaries disposed of did not contribute significant cash flows to the Group for both years.

**24. COMMITMENTS**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Contracted for:		
Commitment to acquire properties under development	–	4,673
As at the balance sheet date, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:		
Within one year	<b>842</b>	2,514
Later than one year and not later than five years	<b>956</b>	128
	<b>1,798</b>	2,642

The Company had no other significant commitments at the balance sheet date (2001: Nil).



# Notes To Financial Statements

31 March 2002

## 25. RELATED PARTY TRANSACTIONS

During the year, a former associate of the Group charged total royalty fee of HK\$5,415,000 (2001: HK\$3,069,000) to the Group relating to the sub-licensing of the right to use an international trademark for the Group's products. The royalty fee was charged by this former associate according to the terms of a sub-licensing agreement entered into between the Group. The former associate, as master licensee, obtained the right to sub-license the use of the international trademark through a master license agreement with the master licensor of the trademark. The master license agreement was terminated by the master licensor during the year and incidental to that, the sub-licensing agreement between the Group and the former associate was also deemed to be terminated accordingly.

## 26. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) A total of 21,501,050 share options held as at 31 March 2002 were cancelled upon the resignation of certain employees, further details of which are set out in note 21 to the financial statements.
- (b) On 2 July 2002, Oceanic Development Limited, a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with an independent third party (the "Vendor") to acquire the entire issued share capital of Cheuk Yiu Investment Limited ("Cheuk Yiu"), a company incorporated in Samoa, for an aggregate consideration of HK\$36,000,000.

The sole asset of Cheuk Yiu is its investment of 60% interest in Chang Yuang Resources Limited ("Chang Yuang"), a company incorporated in Hong Kong with principal activities consisting of iron ore trading and investment holding. Chang Yuang effectively holds 24.01% interest in Terengganu Anshan Iron and Steel Sdn. Bhd. and 35 % interest in Terengganu Anshan Mining Sdn. Bhd., both companies were incorporated in Malaysia and their principal activities are the exploration and extraction of iron ores in Malaysia.

The Agreement was completed on 23 July 2002.

Out of the total cash consideration of HK\$36,000,000 (a) a sum of HK\$6,000,000 has been paid as an initial deposit upon the entering into the Agreement; (b) a sum of HK\$10,000,000 has been paid upon completion of the Agreement; and (c) the remainder of HK\$20,000,000 will be paid on or before the expiry of the 6th month following the completion date of the Agreement.

## 27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 July 2002.