

Notes to Financial Statements

31 March 2003

1. CORPORATE INFORMATION

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

The iron ores and steel trading was new business 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 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances 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.

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 2002.

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

The adoption of the above new or revised accounting standards had no material impact on reported results of the Group other than presentation changes.

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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 and impairment losses, if any. 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 building	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.

Associates

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 plus goodwill (net of accumulated amortisation) less any additional provisions for impairment in values, other than those considered to be temporary in nature, deemed necessary by the directors.

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

Associates (Continued)

Equity accounting is discontinued when carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

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 represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

In respect of acquisition of controlled subsidiaries, goodwill is amortised to the consolidated profit and loss account on a straight-line basis over ten years. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisition of associates, goodwill is amortised to the consolidated profit and loss account on a straight-line basis over ten years. The cost of goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates.

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

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:

- fixed assets (other than properties carried at revalued amounts);
- interests in subsidiaries, associates and long term investment; and
- 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.

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

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.

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.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

Borrowing costs

Borrowing costs, which represent interest and other charges incurred in connection with the borrowing of operating funds, are recognised as expenses when they are incurred.

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 realisable 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.

Notes to Financial Statements

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

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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised 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 balance sheet of the Company's subsidiaries and associates expressed in foreign currencies are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. The resulting translation differences are included in the exchange fluctuation reserve.

In prior periods, the profit and loss account of subsidiaries was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss account of subsidiaries in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

Notes to Financial Statements

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) 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;
- (b) rental income and administration fee income are recognised on a straight line basis; and
- (c) interest income is recognised 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.

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.

Segment 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 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 a similar terms as those available to the external parties.

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

Segment reporting (Continued)

In respect of geographical segment reporting, revenue 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, OTHER REVENUE AND SEGMENT 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:

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sales of consumer products	62,131	97,688
Sales of leather materials	5,129	22,618
Sales of properties	876	50,211
Sales of iron ores and steel	72,109	–
	140,245	170,517
Other revenue		
Unrealised holding gain on long term investment reclassified from interests in associates	–	202
Rental income	134	–
Administration fee income	694	–
Exchange gain, net	1,121	–
Gain on disposal of fixed assets	31	–
Gain on disposal of subsidiaries	7,091	–
Interest income	98	630
Sundry income	450	203
	9,619	1,035
Total revenue	149,864	171,552

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3. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments

	Consumer products 2003 HK\$'000	Properties trading 2003 HK\$'000	Leather materials 2003 HK\$'000	Iron ores and steel 2003 HK\$'000	Inter-segment elimination 2003 HK\$'000	Unallocated 2003 HK\$'000	Consolidated 2003 HK\$'000
Revenue from external customers	62,131	876	5,129	72,109	–	–	140,245
Segment results	(11,710)	66	(254)	2,874	–	–	(9,024)
Unallocated operating income and expenses							(1,289)
Loss from operating activities							(10,313)
Finance costs							(537)
Share of losses of associates	–	–	–	(448)	–	(553)	(1,001)
Tax							(197)
Minority interests							(2,431)
Loss attributable to shareholders							(14,479)
Depreciation for the year	1,008	–	68	90	–	447	1,613
Amortisation for the year	3,218	–	–	2,301	–	–	5,519
Impairment loss for the year	86	–	–	–	–	–	86
SEGMENT ASSETS	51,768	40,776	3,530	49,058	(21,983)	–	123,149
Interests in associates							550
Unallocated assets							8,368
Total assets							132,067
SEGMENT LIABILITIES	12,045	40,187	66	44,726	(76,301)	–	20,723
Unallocated liabilities							1,182
Total liabilities							21,905
Capital expenditure incurred during the year	2,633	–	86	304	–	1,003	4,026

Notes to Financial Statements

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3. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Consumer products 2002 HK\$'000	Properties trading 2002 HK\$'000	Leather materials 2002 HK\$'000	Inter-segment elimination 2002 HK\$'000	Unallocated 2002 HK\$'000	Consolidated 2002 HK\$'000
Revenue from external customers	97,688	50,211	22,618	–	–	170,517
Segment results	(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

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3. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

The Group's operations are mainly located in Hong Kong and China. An analysis of the Group's turnover and results by location of its customers, irrespective of the origin of goods, is as follows:

	PRC (including Hong Kong)		Other Asian countries		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	126,798	163,901	13,447	6,616	140,245	170,517
Profit/(loss) from operating activities	(12,355)	(34,018)	2,042	621	(10,313)	(33,397)
Segment assets	132,067	174,854	–	–	132,067	174,854
Capital expenditure incurred during the year	4,026	6,071	–	–	4,026	6,071

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4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2003	2002
	HK\$'000	HK\$'000
Auditors' remuneration	431	375
Amortisation of goodwill	5,519	2,609
Depreciation	1,613	1,338
Impairment loss of goodwill	–	16,922
Fixed assets written off	422	1,737
Loss on disposal of subsidiaries	–	2,050
Impairment loss of inventories	86	–
Provision for doubtful debts	2,146	882
Operating lease rentals on leasehold land and buildings	1,718	4,943
Operating lease rentals on equipment	84	–
Exchange loss, net	–	157
Staff costs (including directors' remuneration – note 5):		
Salaries and wages	8,041	9,049
Other benefits	602	386
Pension contributions	120	317
	8,763	9,752

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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:

	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,223	1,964
Pension contributions	24	25
	1,247	1,989

The remuneration of the directors fell within the following bands:

	2003	2002
	Number of directors	Number of directors
Nil – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	–	1
	2	3

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 (2002: Nil) and no fees or other remuneration were paid to the non-executive directors (2002: Nil).

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

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6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2002: two) directors, details of whose remuneration are set out in note 5 above. The details of the remuneration of the remaining three (2002: three) non-director, highest paid individuals are as follows:

	2003	2002
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	1,481	2,093
Pension contributions	34	29
	1,515	2,122

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

	2003	2002
	Number of employees	Number of employees
Nil – HK\$1,000,000	3	3

7. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
L/C charges and interest	529	–
Interest on bank loans – wholly repayable within one year	8	–
– wholly repayable after five years	–	197
	537	197

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8. TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
Group		
Hong Kong – provided for the year	450	262
– overprovided for last year	(253)	–
	197	262

No Hong Kong profits tax has been provided for the Company as it had no assessable profits for the year (2002: Nil). Hong Kong Profits Tax has been calculated at 16% of the estimated assessable profits of the subsidiaries for the year (2002: 16%). No Hong Kong profits tax has been provided for the associates as it had no assessable profits attributable to the Group for the year (2002: Nil).

There were no significant deferred tax liabilities at the balance sheet date (2002: Nil). The unprovided deferred tax asset at the balance sheet date amounted to approximately HK\$2,200,000 (2002: HK\$6,148,000) 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\$14,479,000 (2002: HK\$37,604,000).

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\$14,479,000 (2002: HK\$37,604,000) and 17,665,936,000 (2002: 17,665,936,000) 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.

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11. FIXED ASSETS

Group

	Leasehold land and building	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	1,700	1,783	1,082	5,893	10,458
Exchange differences	–	11	7	4	22
Additions					
– through acquisition					
of subsidiaries	–	279	–	949	1,228
– others	–	840	–	1,958	2,798
Through disposal					
of subsidiaries	–	(210)	(336)	(2,698)	(3,244)
Disposal	–	–	–	(672)	(672)
Written off	–	(648)	(303)	(534)	(1,485)
At 31 March 2003	1,700	2,055	450	4,900	9,105
Accumulated depreciation:					
At beginning of year	60	954	909	4,000	5,923
Exchange differences	–	2	3	1	6
Through acquisition					
of subsidiaries	–	112	–	401	513
Provided during the year	8	273	185	1,147	1,613
Through disposal					
of subsidiaries	–	(210)	(364)	(2,609)	(3,183)
Disposal	–	–	–	(175)	(175)
Written back	–	(438)	(293)	(332)	(1,063)
At 31 March 2003	68	693	440	2,433	3,634
Net book value:					
At 31 March 2003	1,632	1,362	10	2,467	5,471
At 31 March 2002	1,640	829	173	1,893	4,535

The Group's leasehold land and building represent medium term leasehold land and building situated in Hong Kong.

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11. FIXED ASSETS (Continued)

Company

	Equipment
	HK\$'000
Cost:	
At beginning of year and at 31 March 2003	140
Accumulated depreciation:	
At beginning of year	74
Provided during the year	28
At 31 March 2003	102
Net book value:	
At 31 March 2003	38
At 31 March 2002	66

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12. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	66,743	66,743
Due from subsidiaries	571,015	550,190
Due to subsidiaries	(17,983)	(540)
	619,775	616,393
Less: Impairment loss	(523,866)	(511,664)
	95,909	104,729

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
			2003	2002	
Directly held					
China Elegance Holdings Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding
Indirectly held					
Billion Chain Ltd.	British Virgin Islands	US\$1	100%	100%	Dormant
Brilliant Challenge (Hong Kong) Limited	Hong Kong	HK\$1,000	60%	60%	Trading of leather and leather products

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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
			2003	2002	
Indirectly held (continued)					
C & R International (Holdings) Limited	Hong Kong	HK\$2	60%	60%	Trading of leather and leather products
C & R International (Management) Limited *	Samoa	US\$1	60%	–	Brand management
Chang Yuang Resources Limited *	Hong Kong/ PRC	HK\$2,000,000	60%	–	Trading of iron ores and steel
Charmful Challenge (Asia) Limited	Hong Kong	HK\$1,000	60%	60%	Sourcing and trading of leather products
Cheuk Yiu Investment Limited *	Samoa	US\$397,436	100%	–	Investment holding
Crest Pearl Inc.	Niue	US\$1	100%	100%	Dormant
Crest Pearl Group Co. Ltd. #	British Virgin Islands/PRC	US\$1	–	100%	Trading of garments and leatherwear
Crown Faith Limited *	British Virgin Islands	US\$1	100%	–	Provision of administration services

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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
			2003	2002	
Indirectly held (continued)					
Felina International Investment Ltd.	British Virgin Islands	US\$1	100%	100%	Investment holding
Gold Billion Limited	Samoa	US\$1	60%	60%	Provision of management services and trading of leather materials
Grand Capital Enterprises Limited	British Virgin Islands	US\$1	100%	100%	Trading of leather products
Hero Gain Limited	Hong Kong	HK\$100	100%	100%	Provision of management services
Hong Kong Cable Services Co. Limited +	Hong Kong	HK\$100	78.5%	40%	Trading of computer hardware and software, provision of computer maintenance services and software development

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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
			2003	2002	
Indirectly held (continued)					
Hugefaith Development Limited	Hong Kong	HK\$2	60%	60%	Provision of management services
Jade Profit Enterprises Limited	British Virgin Islands	US\$1	100%	100%	Brand management and garments trading
Jointech International Limited +	British Virgin Islands	US\$2,000	78.5%	40%	Investment holding
Lancar Fashion (Shenzhen) Co., Ltd. #	PRC	HK\$5,000,000	–	100%	Dormant
Legend World Group Limited	British Virgin Islands	US\$100	100%	100%	Investment holding
Magnificent Song Enterprise Co., Ltd.#	British Virgin Islands	US\$1	–	100%	Investment holding
Oceanic Development Limited*	Samoa	US\$1	100%	–	Investment holding
Peak Force Limited	Hong Kong	HK\$2	100%	100%	Dormant
Regent Wise International Limited #	Hong Kong	HK\$10,000	–	100%	Purchasing agent
Rothwell Services Limited	British Virgin Islands	US\$10,000	100%	100%	Dormant

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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
			2003	2002	
Indirectly held (continued)					
Shenzhen Shiqin Leather Products Company Limited	PRC	RMB1,000,000	45%	45%	Manufacturing of leather products
Shuttery Limited	British Virgin Islands	US\$1	100%	100%	Dormant
Star Wishes Investment Limited	British Virgin Islands	US\$1	100%	100%	Shoes Trading
Star Rider Investment Limited *	British Virgin Islands	US\$1	100%	—	Provision of administration services
Timesway Limited	British Virgin Islands/PRC	US\$1	100%	100%	Properties trading
Unicon Spirit Development Ltd.	British Virgin Islands	US\$10	60%	60%	Investment holding
Win Power International Limited #	British Virgin Islands	US\$1	—	100%	Dormant

* Acquired during the year

Disposed of during the year

+ Reclassified from associates as the percentage of equity attributable to the Company increased above 50% on subscription of new shares during the year

The above table lists the subsidiaries 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.

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12. INTERESTS IN SUBSIDIARIES (Continued)

On 26 September 2001, the Group 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 undertook and represented to the Group 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 ended 30 September 2002 prepared in accordance with the accounting principles generally accepted in Hong Kong would not be less than HK\$10,000,000 (the "Profit Undertaking"). According to the audited financial statements of Union Spirit Development Ltd. for the year ended 30 September 2002, the Profit Undertaking was fulfilled.

13. GOODWILL

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cost:		
At beginning of year	51,914	19,909
Additions – through acquisition of subsidiaries	32,289	32,005
– others	943	–
At 31 March	85,146	51,914
Amortisation:		
At beginning of year	21,522	1,991
Provided during the year	5,493	2,609
Impairment loss	–	16,922
At 31 March	27,015	21,522
Net book value:		
At 31 March	58,131	30,392

Notes to Financial Statements

31 March 2003

14. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	766	676
Goodwill	491	–
Due (to)/from associates	(707)	259
	550	935

The balances with associates are unsecured, interest-free and have no fixed term of repayment.

Particulars of the Group's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operation	Percentage of equity attributable to the Group		Principal activities
			2003	2002	
China Anshan Corporation Sdn. Bhd. *	Corporate	Malaysia	29.4%	–	Investment holding
Terengganu Anshan Mining Sdn. Bhd. *	Corporate	Malaysia	21%	–	Iron ores mining
Terengganu Anshan Iron & Steel Sdn. Bhd.*	Corporate	Malaysia	14.4%	–	Exploration and extraction of iron ores
TAM Mining Sdn. Bhd. *	Corporate	Malaysia	15%	–	Mining and refining of iron ores

* Acquired during the year

All associates in last year were reclassified as subsidiaries during the year as the Group subscribed for new shares of these companies during the year with a result that the percentage of equity of these companies attributable to the Group was in excess of 50%.

Notes to Financial Statements

31 March 2003

15. LONG TERM INVESTMENT

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unquoted investment less provision	—	—
Corporate membership – at cost	268	268
	268	268

16. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	4,051	5,269
Work in progress	234	400
Finished goods	4,782	4,033
	9,067	9,702

At 31 March 2003, none of the inventories included in the above was carried at net realisable value (2002: HK\$Nil). An impairment loss of HK\$86,000 was made during the year (2002: Nil).

Notes to Financial Statements

31 March 2003

17. ACCOUNTS RECEIVABLE

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

	2003		2002	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	10,260	62	26,752	52
Four to six months	131	1	24,092	47
Over six months	6,030	37	205	1
Total after provision	16,421	100	51,049	100

The normal credit period granted by the Group to trade customers ranges from 90 days to 180 days. For purchasers of property units located in Tianjin, PRC, the Group provided a payment method whereby the purchasers could opt for paying the down payment by instalments within the first year of purchase.

18. ACCOUNTS PAYABLE

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

	2003		2002	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	8,946	99	4,179	55
Four to six months	47	1	3,469	45
	8,993	100	7,648	100

Notes to Financial Statements

31 March 2003

19. SHARE CAPITAL

	Company	
	2003	2002
	HK\$'000	HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	500,000	500,000
Issued and fully paid:		
17,665,936,000 ordinary shares of HK\$0.01 each	176,659	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.

At the beginning of the year, there were a total of 584,713,564 share options outstanding of which (i) 54,713,564 share options were granted on 27 June 1997 and are exercisable at a price of HK\$0.537 per share; and (ii) 530,000,000 share options were granted on 12 June 2001 and are exercisable at a price of HK\$0.01 per share. Both of these options are exercisable within 10 years from the date of grant of the options.

During the year, 24,443,930 share options granted on 27 June 1997 to employees of a subsidiary were cancelled upon disposal of the subsidiary.

As a result of the above, 560,269,634 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 560,269,634 additional ordinary shares and cash proceeds, before issue expenses, of approximately HK\$21,555,000.

None of the share options held as at 31 March 2003 has been exercised up to the date of approval of these financial statements.

Notes to Financial Statements

31 March 2003

20. RESERVES

Group

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

Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001	285,618	172,576	(484,673)	(26,479)
Net loss for the year	–	–	(37,604)	(37,604)
At 31 March 2002 and at beginning of year	285,618	172,576	(522,277)	(64,083)
Net loss for the year	–	–	(14,479)	(14,479)
At 31 March 2003	285,618	172,576	(536,756)	(78,562)

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 2003

21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2003	2002
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	715	3,527
Long term investment	—	268
Goodwill	943	—
Interests in associates	2,171	—
Cash and bank balances	588	3,663
Accounts receivable	4,553	3,123
Bills receivable	581	—
Prepayments and deposits	1,190	2,311
Inventories	—	9,946
Accounts payable	(535)	(920)
Accrued liabilities and other payables	(2,158)	(8,092)
Provision for taxation	(36)	(113)
Minority interests	(3,092)	(5,484)
	4,920	8,229
Goodwill	32,289	31,771
	37,209	40,000
Satisfied by:		
Cash	37,209	40,000

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

	2003	2002
	HK\$'000	HK\$'000
Cash consideration	(37,209)	(40,000)
Cash and bank balances acquired	588	3,663
Bills receivable acquired	581	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(36,040)	(36,337)

Notes to Financial Statements

31 March 2003

21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

	Group	
	2003	2002
	HK\$'000	HK\$'000
Net (liabilities)/ assets disposed of:		
Fixed assets	62	5,264
Cash and bank balances	242	4
Inventories	3,398	—
Accounts receivable	28,212	—
Prepayments, deposits and other receivables	2,436	3
Accounts payable	(5,226)	—
Accrued liabilities and other payables	(27,500)	—
Provision for taxation	(7,761)	—
Long term bank loan	—	(3,041)
	(6,137)	2,230
Gain/(loss) on disposal of subsidiaries	7,091	(2,050)
	954	180
Satisfied by:		
Cash	954	180

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2003	2002
	HK\$'000	HK\$'000
Cash consideration	954	180
Cash and bank balances disposed of	(242)	(4)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	712	176

Notes to Financial Statements

31 March 2003

22. COMMITMENTS

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Group			
	2003		2002	
	HK\$'000		HK\$'000	
	Properties	Equipment	Properties	Equipment
Within one year	1,152	84	842	–
Later than one year and not later than five years	467	196	956	–
	1,619	280	1,798	–

The Group had no other significant commitments at the balance sheet date (2002: Nil).

23. RELATED PARTY TRANSACTIONS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:		
Royalty fee paid to a former associate	–	5,415
Purchases from an associate	3,194	–
	3,194	5,415

24. CONTINGENT LIABILITIES

At 31 March 2003, there were contingent liabilities in respect of bills discounted with a bank amounting to HK\$10,441,000 (2002: Nil) for the Group.

25. PLEDGE OF ASSETS

At 31 March, 2003, the Group's bank deposit of HK\$1,036,000 was pledged to secure general banking facilities granted to the Group.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 July 2003.