

31 March 2004

## 1. CORPORATE INFORMATION

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

The trading of leather materials business was temporarily suspended 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 2004. 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 all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention.

In current year, the Group adopted the SSAP12 (revised) "Income taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003.

The adoption of the above revised accounting standard has no material effect on the financial statements other than presentation changes.

### 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.

31 March 2004

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

### Fixed assets and depreciation (Continued)

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.

### 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 interests 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 on acquisition (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.

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

*31 March 2004***2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)**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 interests 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.

**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.

31 March 2004

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

### Provisions

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

### 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.

### 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.

### 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.

*31 March 2004***2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)**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.

**Share option scheme**

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon 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. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

**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.

**Income tax**

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

31 March 2004

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

### 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.

### 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.

### 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.

31 March 2004

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

### Segment reporting (Continued)

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, revenue is 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:

	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sales of consumer products	29,453	62,131
Sales of leather materials	—	5,129
Sales of properties	2,320	876
Sales of metals and minerals	131,304	72,109
	163,077	140,245
Other revenue		
Rental income	136	134
Administration fee income	1,167	694
Exchange gain, net	1,865	1,121
Gain on disposal of fixed assets	—	31
Gain on disposal of subsidiaries	6,444	7,091
Interest income	42	98
Sundry income	354	450
	10,008	9,619
Total revenue	173,085	149,864

31 March 2004

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

### Primary reporting format – business segments

	Consumer products 2004 HK\$'000	Properties trading 2004 HK\$'000	Leather materials 2004 HK\$'000	Metals and minerals 2004 HK\$'000	Inter-segment elimination 2004 HK\$'000	Unallocated 2004 HK\$'000	Consolidated 2004 HK\$'000
Revenue from external customers	29,453	2,320	–	131,304	–	–	163,077
Segment results	(36,492)	(801)	–	(23,498)	–	–	(60,791)
Unallocated operating income and expenses							(6,065)
Loss from operating activities							(66,856)
Finance costs							(726)
Share of profits less losses of associates	–	–	–	921	–	–	921
Tax							–
Minority interests							(849)
Loss attributable to shareholders							(67,510)
Depreciation for the year	883	–	–	36	–	456	1,375
Amortisation for the year	1,677	–	–	1,728	–	–	3,405
Impairment loss for the year	27,372	–	–	27,955	–	–	55,327
Major non-cash expenses (other than depreciation, amortisation and impairment loss)	1,771	–	–	–	–	–	1,771
SEGMENT ASSETS	18,435	39,975	–	30,601	(27,392)	–	61,619
Interests in associates	–	–	–	–	–	–	1,575
Unallocated assets							9,913
Total assets							73,107
SEGMENT LIABILITIES	5,254	40,187	–	51,371	(76,513)	–	20,299
Unallocated liabilities							1,357
Total liabilities							21,656
Capital expenditure incurred during the year	272	–	–	24	–	60	356



31 March 2004

**3. TURNOVER, OTHER REVENUE AND SEGMENT INFORMATION** (Continued)**Primary reporting format – business segments** (Continued)

	Consumer products 2003 HK\$'000	Properties trading 2003 HK\$'000	Leather materials 2003 HK\$'000	Metals and minerals 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 profits less 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

31 March 2004

## 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	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<b>150,347</b>	126,798	<b>12,730</b>	13,447	<b>163,077</b>	140,245
(Loss)/profit from operating activities	<b>(67,594)</b>	(12,355)	<b>738</b>	2,042	<b>(66,856)</b>	(10,313)
Segment assets	<b>73,107</b>	132,067	–	–	<b>73,107</b>	132,067
Capital expenditure incurred during the year	<b>356</b>	4,026	–	–	<b>356</b>	4,026

31 March 2004

**4. LOSS FROM OPERATING ACTIVITIES**

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Auditors' remuneration	<b>376</b>	431
Amortisation of goodwill	<b>3,405</b>	5,519
Depreciation	<b>1,375</b>	1,613
Impairment loss of goodwill (note 13)	<b>53,370</b>	–
Fixed assets written off	<b>487</b>	422
Loss on disposal of fixed assets	<b>38</b>	–
Costs of inventories	<b>2,057</b>	86
Provision for doubtful debts	<b>–</b>	2,146
Operating lease rentals on leasehold land and buildings	<b>2,139</b>	1,718
Operating lease rentals on equipment	<b>105</b>	84
Staff costs (including directors' remuneration – note 5):		
Salaries and wages	<b>9,236</b>	8,041
Other benefits	<b>713</b>	602
Pension contributions	<b>296</b>	120
	<b>10,245</b>	8,763

31 March 2004

## 5. DIRECTORS' REMUNERATION

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

	2004	2003
	HK\$'000	HK\$'000
Fee	20	–
Basic salaries, housing benefits, other allowances and benefits in kind	952	1,223
Pension contributions	24	24
	996	1,247

The remuneration of the directors fell within the following bands:

	2004	2003
	Number of directors	Number of directors
Nil – HK\$1,000,000	4	2

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 (2003: Nil) and fees of HK\$20,000 were paid to the non-executive directors (2003: Nil).

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

31 March 2004

## 6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2003: two) directors, details of whose remuneration are set out in note 5 above. The details of the remuneration of the remaining three (2003: three) non-director, highest paid individuals are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	1,638	1,481
Pension contributions	36	34
	1,674	1,515

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

	2004	2003
	Number of employees	Number of employees
Nil – HK\$1,000,000	3	3

## 7. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
L/C charges and interest	722	529
Interest on bank loans wholly repayable within one year	4	8
	726	537

31 March 2004

## 8. TAX

(a) Tax in the consolidated profit and loss account represents:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Group		
Hong Kong – provided for the year	–	450
– overprovided for last year	–	(253)
	–	197

No Hong Kong profits tax has been provided for the Company (2003: Nil) and its subsidiaries as they had no estimated assessable profits for the year. Hong Kong profits tax has been calculated at 16% of the estimated assessable profits of the subsidiaries for the year ended 31 March 2003.

Overseas taxes on profits assessable of the Company, subsidiaries or associates, if any, are calculated at the rates of tax prevailing in the respective jurisdictions in which they operate, based on the prevailing legislation, interpretations and practices in respect thereof. No overseas tax has been provided for the Group as they had no estimated assessable profits in the jurisdiction in which they operated for the year (2003: Nil).

There were no significant deferred tax liabilities at the balance sheet date (2003: Nil). The unprovided deferred tax asset at the balance sheet date amounted to approximately HK\$2,571,000 (2003: HK\$2,200,000) which related primarily to tax losses.

31 March 2004

**8. TAX (Continued)**

- (b) A reconciliation of tax expenses applicable to loss before tax using the statutory rate for the country in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e. the statutory tax rate) to the effective tax rate, are as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Loss before tax	(66,661)		(11,851)	
Tax credit at the applicable rates to profits or losses in the countries concerned	(11,694)	17.54	(1,902)	16.05
Revenue not subject to tax	(383)	0.57	(105)	0.89
Non-taxable revenue	(7)	0.01	(11)	0.09
Non-deductible expenses	10,331	(15.50)	1,014	(8.55)
Others	(43)	0.07	(126)	1.06
Unutilised tax losses	1,796	(2.69)	1,624	(13.70)
Tax losses utilised from previous years	—	—	(44)	0.37
Over provision in prior years	—	—	(253)	2.13
Tax expenses for the year	—	—	197	(1.66)

**9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS**

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$67,510,000 (2003: HK\$14,479,000).

**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\$67,510,000 (2003: HK\$14,479,000) and the weighted average of 555,340,067 (2003: 489,748,721) ordinary shares in issue during the year.

The comparative basic loss per share has been retrospectively adjusted for the open offer of shares (note 19) during the year by adjusting the weighted average number of shares used in the calculation.

Diluted loss per share is not presented for current year as the Company had no potential ordinary shares as at the balance sheet date, Comparative diluted loss per share is not presented for last year as the effect arising from the exercise of the potential ordinary shares would have been anti-dilutive.

31 March 2004

## 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	2,055	450	4,900	9,105
Additions	–	17	22	317	356
Disposal	–	–	–	(165)	(165)
Written off	–	(1,028)	(16)	(247)	(1,291)
At 31 March 2004	1,700	1,044	456	4,805	8,005
Accumulated depreciation:					
At beginning of year	68	693	440	2,433	3,634
Provided during the year	68	445	5	857	1,375
Disposal	–	–	–	(75)	(75)
Written back	–	(651)	(15)	(138)	(804)
At 31 March 2004	136	487	430	3,077	4,130
Net book value:					
At 31 March 2004	1,564	557	26	1,728	3,875
At 31 March 2003	1,632	1,362	10	2,467	5,471

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



31 March 2004

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

	<b>Equipment</b>
	<u>HK\$'000</u>
Cost:	
At beginning of year	140
Disposal	<u>(9)</u>
At 31 March 2004	<u>131</u>
Accumulated depreciation:	
At beginning of year	102
Provided during the year	26
Disposal	<u>(7)</u>
At 31 March 2004	<u>121</u>
Net book value:	
At 31 March 2004	<u>10</u>
At 31 March 2003	<u>38</u>

31 March 2004

## 12. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	66,743	66,743
Due from subsidiaries	575,377	571,015
Due to subsidiaries	(23,392)	(17,983)
	618,728	619,775
Less: Provision for Impairment	(587,500)	(523,866)
	31,228	95,909

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
			2004	2003	
Directly held					
China Elegance Holdings Limited	British Virgin Islands	US\$1,000	100%	100%	Investment holding
Indirectly held					
Apex Winner Limited*	Hong Kong	HK\$1	100%	—	Dormant
Billion Chain Ltd.#	British Virgin Islands	US\$1	—	100%	Dormant

31 March 2004

**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
			2004	2003	
Indirectly held (continued)					
Brilliant Challenge (Hong Kong) Limited	Hong Kong	HK\$1,000	60%	60%	Trading of leather and leather products
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%	60%	Brand management
Chang Yuang Resources Limited	Hong Kong/ PRC	HK\$2,000,000	60%	60%	Investment holding and trading of metals and minerals
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%	100%	Investment holding
China Elegance Mining Company Limited*	British Virgin Islands/ PRC	US\$1	100%	–	Trading of metals and minerals

31 March 2004

## 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
			2004	2003	
Indirectly held (continued)					
Crown Faith Limited	British Virgin Islands/ PRC	US\$1	100%	100%	Brand management and trading of garments
Gold Billion Limited	Samoa	US\$1	60%	60%	Provision of management services
Grand Capital Enterprises Limited	British Virgin Islands/ PRC	US\$1	100%	100%	Brand management and 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/ PRC	HK\$100	78.5%	78.5%	Trading of computer hardware and software, provision of computer maintenance services and software development

31 March 2004

**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
			2004	2003	
			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
Jointech International Limited	British Virgin Islands	US\$2,000	78.5%	78.5%	Investment holding
Legend World Group Limited	British Virgin Islands	US\$100	100%	100%	Investment holding
Oceanic Development Limited	Samoa	US\$1	100%	100%	Investment holding
Peak Force Limited	Hong Kong	HK\$2	100%	100%	Dormant
Shenzhen Shiqin Leather Products Company Limited <sup>†</sup>	PRC	RMB1,000,000	45%	45%	Manufacturing of leather products

31 March 2004

## 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
			2004	2003	
Indirectly held (continued)					
Star Wishes Investment Limited	British Virgin Islands/ PRC	US\$1	100%	100%	Brand management and shoes trading
Star Rider Investment Limited	British Virgin Islands/ PRC	US\$1	100%	100%	Brand management
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

\* Acquired during the year

# Disposed of during the year

† The Group held 75% of the voting power of the subsidiary

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.

31 March 2004

**13. GOODWILL**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cost:		
At beginning of year	<b>85,146</b>	51,914
Additions – through acquisition of a subsidiary	–	32,289
– others	–	943
At 31 March	<b>85,146</b>	85,146
Amortisation:		
At beginning of year	<b>27,015</b>	21,522
Provided during the year	<b>3,353</b>	5,493
Impairment loss (Note)	<b>53,370</b>	–
At 31 March	<b>83,738</b>	27,015
Net book value		
At 31 March	<b>1,408</b>	58,131

Note: The impairment loss was provided for the goodwill arose from the acquisition of certain subsidiaries in prior years. The impairment loss is estimated by the directors based on the recoverable amounts of the goodwill after considering the significant difficulties in the operation of these subsidiaries.

31 March 2004

## 14. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	1,687	766
Goodwill	439	491
Due to associates	(551)	(707)
	1,575	550

The balances with the 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
			2004	2003	
China Anshan Corporation Sdn. Bhd.	Corporate	Malaysia	29.4%	29.4%	Investment holding
Terengganu Anshan Mining Sdn. Bhd.	Corporate	Malaysia	21%	21%	Iron ores mining
Terengganu Anshan Iron & Steel Sdn. Bhd.	Corporate	Malaysia	14.4%	14.4%	Exploration and extraction of iron ores
TAM Mining Sdn. Bhd.	Corporate	Malaysia	15%	15%	Mining and refining of iron ores



31 March 2004

**15. LONG TERM INVESTMENT**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unquoted investment less provision	–	–
Corporate membership – at cost	<b>268</b>	268
	<b>268</b>	268

**16. INVENTORIES**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>6,363</b>	4,051
Work in progress	<b>662</b>	234
Finished goods	<b>108</b>	4,782
	<b>7,133</b>	9,067

At 31 March 2004, none of the inventories included in the above was carried at net realisable value (2003: HK\$Nil). An impairment loss of HK\$1,957,000 was made during the year (2003: HK\$86,000).

31 March 2004

## 17. ACCOUNTS RECEIVABLE

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

	2004		2003	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	17,423	77	10,260	62
Four to six months	668	3	131	1
Over six months	4,438	20	6,030	37
Total after provision	22,529	100	16,421	100

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

## 18. ACCOUNTS PAYABLE

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

	2004		2003	
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	6,195	82	8,946	99
Four to six months	3	1	47	1
Over six months	1,282	17	–	–
	7,480	100	8,993	100

31 March 2004

**19. SHARE CAPITAL**

	Company	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	500,000	500,000
Issued and fully paid:		
883,296,800 (2003: 17,665,936,000) ordinary shares of HK\$0.01 each	8,833	176,659

During the year, the following changes in the Company's issued share capital took place:

- (a) Pursuant to a special resolution passed at a special general meeting on 5 January 2004 (the "SGM"), a capital reorganisation scheme (the "Capital Reorganisation") was implemented on 6 January 2004 which involved (i) a consolidation of every 200 existing shares of HK\$0.01 each into 1 consolidated share of HK\$2.00 each (the "Consolidated Share") (the "Share Consolidation"); (ii) a reduction in the nominal value of the then issued share capital from HK\$2.00 per Consolidated Share to HK\$0.01 per adjusted share (the "Adjusted Share") (the "Capital Reduction"); (iii) a subdivision of each authorised but unissued Consolidated Share into 200 Adjusted Shares of HK\$0.01 each; (iv) cancellation of the entire amount standing to the credit of the share premium account of HK\$285,618,277 of the Company as at 30 September 2003 (the "Share Premium Cancellation"); (v) application of the total credit arising from the Capital Reduction and Share Premium Cancellation of HK\$461,394,340 to the contributed surplus account of the Company; and (vi) transfer a credit balance of HK\$546,861,251 from the contributed surplus account to set off against the accumulated losses of the Company as at 30 September 2003 (the "Credit Transfer").
- (b) Pursuant to an ordinary resolution passed at the SGM, the Company made an open offer of 794,967,120 shares of HK\$0.01 each to shareholders at a subscription price of HK\$0.01 per share on the basis of 9 open offer shares for every share held on 13 January 2004. The open offer was completed on 30 January 2004. The net proceeds of approximately HK\$6.6 million was used as working capital of the Group.

31 March 2004

## 19. SHARE CAPITAL (Continued)

A Summary of the forgoing movements in the issued share capital of the Company during the year is as follows:

	Notes	Number of ordinary shares issued	Amount HK\$'000
At beginning of year		17,665,936,000 <sup>(1)</sup>	176,659
Share Consolidation	(a)(i)	(17,577,606,320)	–
After Share Consolidation		88,329,680 <sup>(2)</sup>	176,659
Capital Reduction	(a)(ii)	–	(175,776)
After Capital Reduction		88,329,680 <sup>(3)</sup>	883
Issue of open offer shares	(b)	794,967,120 <sup>(3)</sup>	7,950
At 31 March 2004		883,296,800 <sup>(3)</sup>	8,833

(1) Nominal value is HK\$0.01 per share

(2) Nominal value is HK\$2.00 per share

(3) Nominal value is HK\$0.01 per share

### Share options

The Company's share option scheme which was adopted in 1996 (the "Old Scheme") was terminated and replaced by a new share option scheme (the "New Scheme") by an ordinary resolution of the shareholders at the special general meeting of the Company on 5 January 2004 (the "Adoption Date"). The New Scheme constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and will remain in force for 10 years from the Adoption Date.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pursuant to the New Scheme, the board of directors is empowered, at its discretion, to invite any full-time employees of the Company or of any of its subsidiaries or associated companies, including any executive directors and non executive directors of the Company or of any of its subsidiaries or associated companies, to take up options to subscribe for shares in the Company. The period during which an option may be exercised will be determined by the directors at their discretion, save that no option may be exercised later than 10 years after it has been granted. Acceptance of the offer shall be within 21 days after the date of offer of the grant of options, upon payment of a nominal consideration of HK\$1. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the aggregate of the shares of the Company in issue as at the Adoption Date unless refreshed by the shareholders. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the shares in issue from time to time. The subscription price of the share options shall not be less than the higher of (i) the closing price of the shares on the Stock Exchange on the date of offer; (ii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

31 March 2004

**19. SHARE CAPITAL** (Continued)**Share options** (Continued)

At the beginning of the year, under the Old Scheme, there were a total of 560,269,634 share options outstanding of which (i) 30,269,634 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. During the year, no new share options were granted under the Old Scheme and the New Scheme and all of the above outstanding share options were cancelled upon resignation of, or surrendered by, the respective employees.

As a result, there was no outstanding share options granted at the balance sheet date.

**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**

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	285,618	172,576	(522,277)	(64,083)
Net loss for the year	–	–	(14,479)	(14,479)
At 31 March 2003 and at beginning of year	285,618	172,576	(536,756)	(78,562)
Capital Reduction*	–	175,776	–	175,776
Share Premium Cancellation*	(285,618)	285,618	–	–
Credit Transfer*	–	(546,861)	546,861	–
Net loss for the year	–	–	(67,510)	(67,510)
At 31 March 2004	–	87,109	(57,405)	29,704

\* Details are set out in note 19 to the financial statements.

The contributed surplus of the Company at the beginning of the year 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.

31 March 2004

## 21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

	2004	2003
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	–	715
Goodwill	–	943
Interests in associates	–	2,171
Cash and bank balances	–	588
Accounts receivable	–	4,553
Bills receivable	–	581
Prepayments and deposits	–	1,190
Accounts payable	–	(535)
Accrued liabilities and other payables	–	(2,158)
Provision for taxation	–	(36)
Minority interests	–	(3,092)
	–	4,920
Goodwill	–	32,289
	–	37,209
Satisfied by:		
Cash	–	37,209

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

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	–	(37,209)
Cash and bank balances acquired	–	588
Bills receivable acquired	–	581
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(36,040)

31 March 2004

**21. NOTES TO CONSOLIDATED CASH FLOW STATEMENT** (Continued)**(b) Disposal of subsidiaries**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net liabilities disposed of:		
Fixed assets	—	62
Cash and bank balances	—	242
Inventories	—	3,398
Accounts receivable	—	28,212
Prepayments, deposits and other receivables	7	2,436
Accounts payable	—	(5,226)
Accrued liabilities and other payables	(3,631)	(27,500)
Provision for taxation	(2,820)	(7,761)
	<b>(6,444)</b>	(6,137)
Gain on disposal of subsidiaries	<b>6,444</b>	7,091
	—	954
Satisfied by:		
Cash	—	954

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cash consideration	—	954
Cash and bank balances disposed of	—	(242)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	712

**(c) Major non-cash transactions**

During the year, the Company had undergone a capital reorganisation scheme and the total credit arising from the Capital Reduction and Share Premium Cancellation plus a part of the contributed surplus account were used to set off against the accumulated losses of HK\$546,861,251 of the Company (note 19). No cash was involved in this transaction.

31 March 2004

## 22. COMMITMENTS

- (a) At the balance sheet date, the Group had capital commitment which had been contracted but not been provided for in the financial statements of approximately HK\$4,700,000 (2003: Nil) in respect of subscription of new shares of an overseas listed company.
- (b) At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Group			
	2004		2003	
	Properties	Equipment	Properties	Equipment
	HK\$'000		HK\$'000	
Within one year	407	84	1,152	84
Later than one year and not later than five years	–	112	467	196
	407	196	1,619	280

The Group had no other significant commitments at the balance sheet date (2003: Nil).

## 23. RELATED PARTY TRANSACTIONS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:		
Purchases from an associate	–	3,194

Purchases from an associate were conducted in the normal course of business at prices and terms no less favourable than those charged by or contracted with other third party suppliers of the Group.



31 March 2004

## **24. CONTINGENT LIABILITIES**

At 31 March 2004, there were contingent liabilities in respect of bills discounted with a bank amounting to HK\$3,004,000 (2003: HK\$10,441,000) for the Group.

## **25. PLEDGE OF ASSETS**

At 31 March 2004, the Group's bank deposits of approximately HK\$3,671,000 (2003: HK\$1,036,000) were pledged to secure general banking facilities granted to the Group.

## **26. CHANGE OF COMPANY NAME**

Pursuant to a special resolution passed at the special general meeting on 5 January 2004, the name of the Company was changed from China Elegance International Fashion Limited to China Elegance (Holdings) Limited.

## **27. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 23 July 2004.