
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this prospectus, or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, together with the copies of the application form for the Offer Shares and the written consent given by Ernst & Young, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance in Hong Kong and filed with the Registrar of Companies in Bermuda as required by Section 26 of the Companies Act 1981 of Bermuda. The Registrar of Companies in Hong Kong, the Securities and Futures Commission in Hong Kong, the Registrar of Companies in Bermuda and the Bermuda Monetary Authority take no responsibility as to the contents of any of these documents.

Dealings in the shares in Xin Corporation Limited may be settled through the Central Clearing and Settlement System and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.



**OPEN OFFER OF 862,102,552 OFFER SHARES
OF HK\$0.01 EACH AT HK\$0.06 PER SHARE
IN THE PROPORTION OF FOUR OFFER SHARES FOR EVERY SHARE HELD
PAYABLE IN FULL ON APPLICATION**

Financial adviser to the Company



Underwriter



The latest time for application and payment for the Offer Shares is 4:00 p.m. on Thursday, 18 September 2003. The procedures for application are set out on pages 13 to 14 of this prospectus.

Shareholders should note that the Underwriting Agreement contains provisions granting the Underwriter the right, which may be exercised at any time prior to 4:00 p.m. on the third business day after 18 September 2003, to terminate its obligations thereunder on the occurrence of certain events, including force majeure, or where there is a material breach of any of the obligations and undertakings by the Company contained in the Underwriting Agreement, or the representations or warranties by the Company contained in the Underwriting Agreement being untrue or inaccurate, which, in each case, will have a material and adverse effect on the business, financial or trading position or prospects of the Group, or is otherwise likely to have a materially prejudicial effect on the Open Offer or where the Company fails to clarify any information at the Underwriter's request for the purpose of preventing the creation of a false market in the securities of the Company, on or before 4:00 p.m. on the third business day following the last day for application and payment for the Offer Shares under the Open Offer. For this purpose, force majeure refers to the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or the occurrence of any local, national, international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether ejusdem generis with any of the foregoing), or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or the success of the Open Offer or make it inadvisable or inexpedient to proceed with the Open Offer. If the Underwriter exercises such right to terminate its obligations under the Underwriting Agreement, the Open Offer will not proceed.

Shareholders should note that the Shares are being dealt with on an ex-entitlements basis commencing from Thursday, 28 August 2003 and that dealings in such Shares will take place whilst the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Tuesday, 23 September 2003), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares who is in any doubt about his/her position is recommended to consult his/her own professional adviser.

* For identification purpose only

TERMINATION OF THE UNDERWRITING AGREEMENT

Shareholders should note that the Underwriting Agreement contains provisions granting the Underwriter the right, which may be exercised at any time prior to 4:00 p.m. on the third business day after 18 September 2003, to terminate its obligations thereunder on the occurrence of certain events, including force majeure, or where there is a material breach of any of the obligations and undertakings by the Company contained in the Underwriting Agreement, or the representations or warranties by the Company contained in the Underwriting Agreement being untrue or inaccurate, which, in each case, will have a material and adverse effect on the business, financial or trading position or prospects of the Group, or is otherwise likely to have a materially prejudicial effect on the Open Offer or where the Company fails to clarify any information at the Underwriter's request for the purpose of preventing the creation of a false market in the securities of the Company, on or before 4:00 p.m. on the third business day following the last day for application and payment for the Offer Shares under the Open Offer. For this purpose, force majeure refers to the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or the occurrence of any local, national, international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether ejusdem generis with any of the foregoing), or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or the success of the Open Offer or make it inadvisable or inexpedient to proceed with the Open Offer. If the Underwriter exercises such right to terminate its obligations under the Underwriting Agreement, the Open Offer will not proceed.

Shareholders should note that the Shares are being dealt with on an ex-entitlements basis commencing from Thursday, 28 August 2003 and that dealings in such Shares will take place whilst the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Tuesday, 23 September 2003), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating selling or purchasing Shares who is in any doubt about his/her position is recommended to consult his/her own professional adviser.

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DEFINITIONS

In this prospectus, the following expressions have the following meanings, unless the context requires otherwise:

“Application Form(s)”	application form(s) for the Offer Shares
“associate(s)”	the meaning given to it in the Listing Rules
“BMA”	the Bermuda Monetary Authority
“Board”	the board of directors of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	The Companies Act 1981 of Bermuda
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Xin Corporation Limited, a company incorporated in Bermuda with its shares listed on the Stock Exchange
“Convertible Bonds”	5% convertible bonds of the Company in the aggregate outstanding principal amount of HK\$4,333,333, which are repayable by two remaining equal installments over two years up to May 2005 or convertible into Shares at a conversion price of HK\$0.50 per Share, subject to adjustment
“Convertible Note”	3% convertible note of the Company in the aggregate principal amount of HK\$16 million, which is repayable in July 2004 or convertible into Shares at a conversion price of HK\$0.50 per Share, subject to adjustment
“Directors”	directors of the Company
“Excluded Shareholder(s)”	Shareholder(s) other than the Qualifying Holder(s)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Shareholders”	Shareholders other than Vision Century and its associates
“Latest Practicable Date”	1 September 2003, being the latest practicable date for ascertaining certain information for inclusion in this prospectus

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Lo”	Mr. Lo Ming Chi, Charles, the Chairman of the Company and an executive Director
“Mr. Yu”	Mr. Yu Wai Man, an executive Director
“New Shares”	25,092,000 Shares (if the Open Offer is completed) or 12,640,000 Shares (if the Open Offer does not proceed) to be issued pursuant to the Subscription Agreement
“Offer Price”	the subscription price of HK\$0.06 per Offer Share pursuant to the Open Offer
“Offer Share(s)”	the new Share(s) offered to the Qualifying Holders for subscription pursuant to the Open Offer
“Open Offer”	the issue of the Offer Shares by way of open offer to the Qualifying Holders on the terms set out in this prospectus and the Application Form
“Prospectus Documents”	this prospectus and the Application Form(s)
“Qualifying Holder(s)”	Shareholder(s) who, at the close of business on the Record Date, had addresses in Hong Kong on the register of members of the Company
“Record Date”	3 September 2003, being the date by reference to which entitlements under the Open Offer had been determined
“Registrar”	the Company’s branch share registrar in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company
“Special General Meeting”	the special general meeting of the Company held on 3 September 2003 to approve, among others, the Open Offer and the Subscription
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Mr. Lo and Mr. Yu

DEFINITIONS

“Subscription”	the subscription by the Subscribers of the New Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 28 July 2003 entered into between the Company and the Subscribers, whereby the Company agreed to allot and issue, and the Subscribers agreed to subscribe for, the New Shares
“Subscription Independent Shareholders”	Shareholders who are independent of and not connected with the Subscribers and their respective associates
“Subscription Price”	HK\$0.0796 per Share (if the Open Offer is completed) or HK\$0.158 per Share (if the Open Offer does not proceed) pursuant to the Subscription Agreement
“Underwriter”	Kingston Securities Limited, a licensed corporation to carry on business in types 1, 4, 6, 7 and 9 regulated activities (dealing in securities, advising on securities and corporate finance, providing automated trading services and asset management) under the SFO
“Underwriting Agreement”	the underwriting agreement dated 15 July 2003 entered into between the Underwriter, the Company and Vision Century in relation to the underwriting of the Open Offer
“Vision Century”	Vision Century Group Limited, a company incorporated in the British Virgin Islands, the controlling shareholder of the Company
“%”	Percentage

EXPECTED TIMETABLE

2003

Open Offer prospectus and the Application Form posted	Wednesday, 3 September
Register of members to be reopened	Thursday, 4 September
Latest time for application for Offer Shares and payment	4:00 p.m. on Thursday, 18 September
Underwriting Agreement becomes unconditional	Tuesday, 23 September
Subscription Agreement becomes unconditional	Tuesday, 23 September
Announcement of the results of the Open Offer	Wednesday, 24 September
Share certificates for Offer Shares to be posted	Friday, 26 September
Refund cheques in respect of unsuccessful applications for excess Offer Shares to be posted	Friday, 26 September
Long stop date for the completion of the Subscription Agreement	Tuesday, 30 September

LETTER FROM THE BOARD



Executive Directors:

Mr. Lo Ming Chi, Charles (*Chairman*)
Mr. Yu Wai Man
Mr. Wilson Ng
Mr. Ng Wee Keat
Mr. Ng Teow Leng
Mr. Ng Eng Leng

Independent Non-executive Directors:

Mr. Wu Wing Kit
Mr. Wong Kwok Tai, Wytan
Mr. Lau Pok Lam

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal

Place of Business:

Room 3A03-06, 3/F.
New Mandarin Plaza
14 Science Museum Road
Tsim Sha Tsui East
Kowloon
Hong Kong

3 September 2003

*To Qualifying Holders and, for information only, Excluded Shareholders,
holders of the Convertible Bonds and the Convertible Note*

Dear Sir or Madam,

**OPEN OFFER OF 862,102,552 OFFER SHARES OF
HK\$0.01 EACH AT HK\$0.06 PER SHARE
IN THE PROPORTION OF FOUR OFFER SHARES FOR
EVERY SHARE HELD PAYABLE IN FULL ON APPLICATION**

INTRODUCTION

The Directors announced on 15 July 2003 that the Company proposes to raise approximately HK\$51 million by way of the Open Offer. Pursuant to the Open Offer, the Qualifying Holders will be entitled to apply for, on an assured basis, four Offer Shares for every Share held on the Record Date. Under the Listing Rules, the Open Offer is required to be made conditional on the approval of the Shareholders, other than Vision Century, the controlling shareholder of the Company and its associates.

On 28 July 2003, the Company announced the proposed Subscription whereby the Subscribers will subscribe from the Company an aggregate of 25,092,000 Shares at a price of HK\$0.0796 per Share. The issue of the New Shares under the Subscription will be in full and final settlement of all outstanding balances as at 31 March 2003 owed by the Group to the Subscribers, in the aggregate amount of HK\$1,997,774.19. The Subscribers are connected persons of the Company under the Listing Rules and the Subscription therefore constitutes a connected transaction under the Listing Rules and is subject to, inter alia, approval by the Subscription Independent Shareholders at the Special General Meeting of the Company.

* For identification purpose only

LETTER FROM THE BOARD

On 18th August, 2003, a circular containing details regarding, among other things, the Open Offer, the Subscription and a notice of the Special General Meeting was despatched to the Shareholders. A copy of such circular is available for inspection as referred to under the paragraph headed “Documents available for inspection” in Appendix II to this prospectus.

At the Special General Meeting, resolutions were duly passed by the Independent Shareholders, the Subscription Independent Shareholders or the Shareholders (as the case may be) approving, among others, the Open Offer, the Subscription, the increase in authorized share capital and the general mandates to issue securities and repurchase Shares.

This prospectus sets out further information regarding the Open Offer, including information on dealings and application for the Offers Shares and other financial information in respect of the Group.

OPEN OFFER

Issue statistics

Basis of the Open Offer	–	4 Offer Shares for every Share held on the Record Date
Number of existing Shares in issue	–	215,525,638 Shares
Number of Offer Shares	–	862,102,552 Offer Shares
Enlarged issued share capital upon completion of the Open Offer assuming no conversion of the Convertible Note and the Convertible Bonds (and with the issue of the New Shares)	–	1,077,628,190 Shares (1,102,720,190 Shares)

Offer Price

The Offer Price is HK\$0.06 per Offer Share, payable in full on application. The Offer Price represents:

- (i) a discount of approximately 62.0% to the closing price of HK\$0.158 per Share as quoted on the Stock Exchange on 14 July 2003 (being the last trading day before the date of the announcement of the Open Offer);
- (ii) a discount of approximately 24.6% to the theoretical ex-entitlement price of HK\$0.0796 per Share based on the aforesaid closing price per Share as quoted on the Stock Exchange;
- (iii) a discount of approximately 64.5% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 10 trading days ended on 14 July 2003 of approximately HK\$0.1688 per Share;

LETTER FROM THE BOARD

- (iv) a premium of approximately 62.2% to the pro forma adjusted consolidated net asset value of the Group upon completion of the Open Offer and the Subscription of HK\$0.037 per Share; and
- (v) a discount of approximately 31.8% to the closing price of HK\$0.088 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Offer Price for the Offer Shares has been determined based on arm's length negotiations between the Company and the Underwriter with reference to prevailing market prices of the Shares at the time of the Underwriting Agreement. The Directors consider that the terms of the Underwriting Agreement are fair and reasonable and the discount of the Offer Price as compared to the recent market prices would encourage Shareholders to participate in the Open Offer and the future growth of the Company.

Status of the Offer Shares

When allotted and issued fully paid, the Offer Shares will rank *pari passu* in all respects with the existing Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of issue of the Offer Shares.

Application for listing

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

THE UNDERWRITING AGREEMENT

Undertaking of the controlling shareholder of the Company

As at the Latest Practicable Date, Vision Century, the controlling shareholder of the Company, is interested in 156,419,190 Shares representing approximately 72.6% of the existing issued share capital of the Company. Vision Century has irrevocably undertaken to the Company that it will subscribe for the 625,676,760 Offer Shares that it will be entitled to apply for on an assured basis under the Open Offer. Save for the above and the Subscription, none of the Directors or connected persons of the Company (as defined in the Listing Rules) is interested in any Shares as at the Latest Practicable Date. Vision Century has no intention to apply for any excess Offer Shares.

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Underwriter has agreed to fully underwrite the Offer Shares not taken up by Vision Century, which will amount to 236,425,792 Offer Shares.

The Underwriter is independent of, and not connected with the Company, the directors, chief executive or substantial shareholders of the Company, its subsidiaries or their respective associates.

LETTER FROM THE BOARD

Commission and other payment

The Company will pay to the Underwriter an underwriting commission at 2.5% of the aggregate Offer Price of the actual number of the Offer Shares to be underwritten by the Underwriter as determined on the Record Date. The underwriting commission will amount to approximately HK\$0.35 million.

Termination of the Underwriting Agreement

Shareholders should note that the Underwriting Agreement contains provisions granting the Underwriter the right, which may be exercised at any time prior to 4:00 p.m. on the third business day after 18 September 2003, to terminate its obligations thereunder on the occurrence of certain events, including force majeure, or where there is a material breach of any of the obligations and undertakings by the Company contained in the Underwriting Agreement, or the representations or warranties by the Company contained in the Underwriting Agreement being untrue or inaccurate, which, in each case, will have a material and adverse effect on the business, financial or trading position or prospects of the Group, or is otherwise likely to have a materially prejudicial effect on the Open Offer or where the Company fails to clarify any information at the Underwriter's request for the purpose of preventing the creation of a false market in the securities of the Company, on or before 4:00 p.m. on the third business day following the last day for application and payment for the Offer Shares under the Open Offer. For this purpose, force majeure refers to the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or the occurrence of any local, national, international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether ejusdem generis with any of the foregoing), or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or the success of the Open Offer or make it inadvisable or inexpedient to proceed with the Open Offer. If the Underwriter exercises such right to terminate its obligations under the Underwriting Agreement, the Open Offer will not proceed.

Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional, among other things, on the following conditions being fulfilled:

- (i) the Independent Shareholders approving the Open Offer at the Special General Meeting;
- (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of, and permission to deal in, the Offer Shares;

LETTER FROM THE BOARD

- (iii) the delivery to the Stock Exchange and the registration by the Registrar of Companies in Hong Kong of one copy of the Open Offer prospectus and the Application Form each duly certified in compliance with section 342C of the Companies Ordinance (and all other documents required to be attached thereto) and otherwise complying with the requirements of the Companies Ordinance and the Listing Rules and the filing of one copy of the Open Offer prospectus and the Application Form each duly signed by or on behalf of the Directors with the Registrar of Companies in Bermuda in compliance with requirements of the Companies Act; and
- (iv) the Open Offer prospectus and the Application Form being duly approved by the Directors, delivered to the Underwriter and despatched to the Shareholders.

If the conditions to the Underwriting Agreement are not fulfilled or waived on the dates as specified in the Underwriting Agreement (or such later date or dates as the Underwriter may agree with the Company in accordance with its terms), or if the Underwriting Agreement shall be terminated as described above, the obligations and liabilities of the parties shall cease and determine. The Open Offer is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms. As at the date of this prospectus, all the conditions have been fulfilled.

Warning of the risks of dealing in Shares

Shareholders should note that the Shares are being dealt with on an ex-entitlements basis commencing from Thursday, 28 August 2003 and that dealings in such Shares will take place whilst the conditions to which the Underwriting Agreement is subject remain unfulfilled. Any Shareholder or other person dealing in such Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be Tuesday, 23 September 2003), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her position is recommended to consult his/her own professional adviser.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The principal activities of the Group are the design, manufacture and sale of a wide range of toys. For the year ended 31 March 2002, the Group incurred an audited consolidated net loss of approximately HK\$59.3 million. For the year ended 31 March 2003, the Group recorded net profit attributable to Shareholders of approximately HK\$37.4 million mainly representing the gain arising from the waiving of debts by various banks and financial institutions of approximately HK\$77.0 million and a number of other creditors of the Group through a debt restructuring completed in May 2002. In May 2002, the Group completed a restructuring proposal involving, among others (i) the issue of new Shares to Vision Century to raise approximately HK\$30 million; and (ii) a three for two open offer to raise approximately HK\$40.3 million. The Directors are of the view that with the recently improving equity market conditions, it is in the interest of the Company to raise equity capital to strengthen the Group's financial position and enlarge its capital base.

LETTER FROM THE BOARD

Net proceeds of the Open Offer of approximately HK\$49.7 million is intended to be applied as to approximately HK\$32.0 million for the repayment of the liabilities outstanding (including the Convertible Note, the Convertible Bonds and other liabilities of the Group) and as to the remainder of approximately HK\$17.7 million for general working capital of the Group. The Group has yet to decide the proportion for the repayment of the Convertible Note, the Convertible Bonds and other liabilities of the Group. The Directors believe that the Open Offer is in the interests of the Group and the Shareholders given that the Open Offer will increase the asset base of the Group and provide it with additional working capital.

Business prospects of the Group

For the year ended 31 March 2003, the Group has successfully implemented the debt restructuring which gave the Group significant improvement to its capital base and restored the on-going support from the business partners for daily operation. In view of the shrinking of the global economy owing to deflation, terrorists' attacks and in particular the Iraq war, the overall sales performance fell below the Group's expectation. In order to maintain the competitiveness of the Group's products and to reduce the operating expenses, the Group has implemented various marketing strategies such as early bird program, adopting new pricing policy and scaling down its production.

With the uncertainties about the global economy, most of the Group's customers were pessimistic and cautious in their buying patterns as compared to the previous year. This caused a decrease in turnover generated from most of the Group's major geographical regions.

With the Iraq war, heavy price fluctuations occurred in the by-products of petroleum such as plastic material, one of the primary raw materials utilized for the Group's manufacturing operations, especially for the core product item – toddler cars. This in turn caused a rise to the cost of the Group's products and affected the new pricing policy.

The prolonged adverse effect from terrorists' attacks and labour strike in the harbour terminals of the United States led to the cancellation and postponement of certain orders so that the Group had scaled down its production in an effort to reduce its fixed operating expenses in late 2002. At the same time, an effective internal control system has been implemented by the Group to streamline its operation process with an aim to increasing its production efficiency.

In order to ensure the Group places itself in more promising future, the management has taken several measures to manage the business of the Group through reduction of fixed operating and administrative expenses, cost control, establishment of a product design department in Hong Kong office together with the recruitment of well experienced sales and marketing staff to assist in formulating its sales strategies.

The management believes that during the global recession and the downturn in the toy's industries, it is appropriate for the Group to re-engineer its production capacity, to reset its sales and marketing strategies, to review its long term mission and to penetrate its products into new markets. The Group will continue to focus on enhancing its original design manufacture products and expanding its business into key markets. In the forthcoming recovery of the global economy, the Group can ride on the upswings to achieve the long term growth.

LETTER FROM THE BOARD

Fund raising activities in 2002

In May 2002, the Group completed a restructuring proposal involving:

- (i) the subscription of an equivalent of 60,000,000 Shares at HK\$0.50 per Share by Vision Century at an aggregate subscription price of HK\$30 million;
- (ii) the three for two open offer of an equivalent of 80,518,102 Shares at HK\$0.50 per Share to raise HK\$40.3 million; and
- (iii) the release and discharge by certain banks of all claims and other monies owed by the Group.

The number of Shares and the share price as mentioned above have been adjusted for the 50 to 1 share consolidation completed in December 2002.

The net proceeds raised for the Company from the restructuring proposal as mentioned above were approximately HK\$63.5 million. As stated in the circular of the Company dated 26 April 2002 in relation to the restructuring proposal, the intended use of proceeds was as to approximately HK\$20 million to repay bank loans and as to the remainder as working capital and/or repay outstanding liabilities of the Group. Such proceeds has been applied in accordance with their intended use as detailed above.

LISTINGS AND DEALINGS

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealing in the Offer Shares or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Share certificates for all Offer Shares are expected to be posted on or before Friday, 26 September 2003, at the risk of the Shareholders. The Offer Shares will be traded in board lots of 4,000 Shares each. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

THE SUBSCRIPTION

On 28 July 2003, the Company and the Subscribers entered into the Subscription Agreement pursuant to which the Subscribers agreed to subscribe for, 25,092,000 Shares at a price of HK\$0.0796 per Share (if the Open Offer is completed) or 12,640,000 Shares at a price of HK\$0.158 per Share (if the Open Offer does not proceed). The issue of the New Shares under the Subscription will be in full and final settlement of all outstanding balances as at 31 March 2003 owed by the Group to the Subscribers, in the aggregate amount of HK\$1,997,774.19. Mr. Lo is the chairman and executive director of the Company and Mr. Yu is an executive Director. Therefore, both Mr. Lo and Mr. Yu are connected persons of the Company. The Subscribers and their respective associates held no Shares prior to the date of the Subscription Agreement.

LETTER FROM THE BOARD

The New Shares represent approximately 11.6% of the existing issued share capital of the Company or approximately 10.4% of the issued share capital of the Company as enlarged by the New Shares. On the basis of the issued Shares on the Record Date and that the Open Offer is completed, the Subscription will enlarge its issued share capital to 1,102,720,190 Shares, and the New Shares represent 2.3% of such enlarged share capital.

SHAREHOLDING IN THE COMPANY

The following is a summary of the shareholding of the Company before and after the completion of the Open Offer and the Subscription:

Shareholder	Existing Shares		Immediately after the completion of the Subscription					
			After Open Offer		After Open Offer		If Open Offer does not proceed	
			(Note: a, c, e)		(Note: b, c, e)		(Note: d, e)	
Vision Century	156,419,190	72.58%	782,095,950	70.92%	782,095,950	70.92%	156,419,190	68.56%
Mr. Lo	–	–	18,068,000	1.64%	18,068,000	1.64%	9,104,000	3.99%
Mr. Yu	–	–	7,024,000	0.64%	7,024,000	0.64%	3,536,000	1.55%
Underwriter	–	–	–	–	236,425,792	21.44%	–	–
Public	59,106,448	27.42%	295,532,240	26.80%	59,106,448	5.36%	59,106,448	25.90%
Total	<u>215,525,638</u>		<u>1,102,720,190</u>		<u>1,102,720,190</u>		<u>228,165,638</u>	

Notes:

- (a) Assuming the Shareholders take up all the Offer Shares under the Open Offer.
- (b) Assuming that no Shareholders (except for Vision Century) take up their entitlement to Offer Shares and the Underwriter takes up its underwriting commitment under the Open Offer as underwriter.
- (c) If the Open Offer proceeds, 25,092,000 Shares will be issued at HK\$0.0796 per Share pursuant to the Subscription.
- (d) In the event the Open Offer does not proceed, 12,640,000 Shares will be issued at HK\$0.158 per Share pursuant to the Subscription.
- (e) All scenarios are presented on the basis of the existing issued Shares and assuming that all convertible securities of the Company in issue are not exercised.

Pursuant to the Underwriting Agreement, the Underwriter has undertaken to the Company to procure independent placees to purchase Shares as may be necessary to ensure that at completion of the Open Offer not less than 25% of Shares are held by the public as required under the Listing Rules.

In addition, the Underwriter has stated that any independent placees procured will be selected on the basis that they are not acting in concert with the Company, Vision Century, the Underwriter (and parties acting in concert with it) and their respective associates, so as to ensure that the Underwriter and its associates will not incur any obligation under the Hong Kong Code on Takeovers and Mergers to make a general offer for the Shares as a result of fulfilling its obligations under the Underwriting Agreement.

LETTER FROM THE BOARD

Depending on the extent to which the entitlements under the Open Offer are taken up by the Shareholders and the procurement of independent placees by the Underwriter as mentioned above, new substantial shareholders of the Company may arise. Further announcement will be made if any new substantial shareholder arises as a result of the Open Offer.

Subject to the Open Offer becoming unconditional, share certificates for all Offer Shares are expected to be posted on or before Friday, 26 September 2003 by ordinary post to those entitled thereto at their own risk.

PERMISSION OF THE BERMUDA MONETARY AUTHORITY

Permission under the Exchange Control Act 1972 of Bermuda (and regulations made thereunder) has been received from the BMA in respect of the issue of the Shares (which would include the Offer Shares) to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Shares are listed on the Stock Exchange. In granting such permission and in accepting the Prospectus Documents for filing, neither the BMA nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in the Prospectus Documents.

OVERSEAS SHAREHOLDERS

No action has been taken in any territory other than Hong Kong and Bermuda to permit the offering of the Offer Shares or the distribution of the Prospectus Documents in any territory other than Hong Kong. As the Directors are of the view that the offer of Offer Shares to Overseas Shareholders would or might, in the absence of compliance with registration or other special formalities in other jurisdictions, be unlawful or impracticable, the Company will send this prospectus to Overseas Shareholders for their information only but no Application Form has been sent or will be sent to the Overseas Shareholders. Accordingly, no person receiving an Application Form in any territory outside Hong Kong may treat it as an offer or invitation to apply for Offer Shares, unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal and regulatory requirements. Subject as referred to above, it is the responsibility of anyone outside Hong Kong wishing to make an application for the Offer Shares to satisfy himself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith. No application for Offer Shares will be accepted from any person whose registered address is outside Hong Kong. The Company reserves the right to refuse to accept any application for Offer Shares where it believes that doing so would or may violate the applicable securities or other laws or regulations of the territory of residence of the applicant.

PROCEDURE FOR APPLICATION

An Application Form is enclosed with this prospectus which entitles you to apply for any number of Offer Shares. Qualifying Holders should note that they may apply for any number of Offer Shares but are assured of an allotment only up to the number set out in the Application Form. If you are a Qualifying Holder and you wish to apply for your assured allotment of Offer Shares to which you are entitled as specified in the enclosed Application Form or you wish to apply for more or less than your assured

LETTER FROM THE BOARD

entitlement, you must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with remittance for the aggregate subscription price in respect of such number of Offer Shares you have applied for with the Registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by not later than 4:00 p.m. on Thursday, 18 September 2003. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Xin Corporation Limited – Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the Application Form, together with the appropriate remittance, has been lodged with the Registrar by not later than 4:00 p.m. on Thursday, 18 September 2003, that assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

If the conditions of the Open Offer are not fulfilled, the application monies will be refunded, without interest, by sending a cheque made out to the applicant (or in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only", through ordinary post at the risk of the applicant(s) to the address specified in the register of members of the Company on or before Friday, 26 September 2003.

Any Offer Shares not validly applied for by Qualifying Holders and the entitlements to Offer Shares of the Excluded Shareholders will be made available for application by Qualifying Holders. The Directors will allocate the excess application for Offer Shares at their sole discretion and on a fair and equitable basis. If you have applied for Offer Shares in excess of your assured entitlement and the Offer Shares allotted to you is less than that applied for, the surplus moneys will be refunded to you by cheque, in the manner described above which we expect to be despatched on or before Friday, 26 September 2003.

The Application Form contains full information regarding the procedures to be followed if you wish to apply for a number of Shares different to that in your assured entitlement.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any application in respect of which the cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The Application Form is for use only by the person(s) named therein and is not transferable.

No receipt will be issued in respect of any application monies received.

SHARE CERTIFICATES

Share certificates in respect of the Offer Shares which are successfully applied for by Qualifying Holders will be sent through ordinary post to the applicants (or, in the case of joint applicants, to the first named applicant), at their own risk, to the address specified in the register of members of the Company. On the assumption that the Open Offer becomes unconditional on or about Tuesday, 23 September 2003, share certificates are expected to be posted on or before Friday, 26 September 2003.

LETTER FROM THE BOARD

ADJUSTMENT TO THE CONVERSION PRICES OF THE CONVERTIBLE BONDS AND THE CONVERTIBLE NOTE

Subject to the Open Offer and/or the Subscription becoming unconditional, the conversion price of the Convertible Bonds and the Convertible Note is required to be adjusted as a result of the Open Offer and/or the Subscription. An announcement will be made by the Company relating to the adjustments following the Special General Meeting.

GENERAL

Your attention is drawn to the information set out in the Appendices.

On behalf of the Board
Lo Ming Chi, Charles
Chairman

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Open Offer, the Subscription and the increase in authorised share capital of the Company are as follows:

HK\$

Authorised:

1,500,000,000	Shares as at the Latest Practicable Date	15,000,000.00
	Shares to be created pursuant to the increase	
8,500,000,000	in authorised share capital	85,000,000.00
10,000,000,000		100,000,000.00

Issued and fully paid:

215,525,638	Shares in issue as at the Latest Practicable Date	2,155,256.38
862,102,552	Offer Shares to be issued	8,621,025.52
25,092,000	New Shares to be issued	250,920.00
1,102,720,190		11,027,201.90

All the Shares in issue and to be issued rank and will rank *pari passu* in all respects with each other including as regards to dividends, voting and return of capital. The Company has not issued any Shares since 31 March 2003 and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company has outstanding Convertible Bonds and Convertible Note which are convertible into an aggregate of 40,666,666 Shares at the current exercise price of HK\$0.50.

Save as disclosed in this prospectus, no share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

Save as disclosed in this prospectus, the Company has no options, warrants and conversion rights convertible into Shares and no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

2. FIVE YEAR SUMMARY

The following information has been extracted from the audited consolidated financial statements of the Group for each of the five years ended 31 March 2003:

Results

	Year ended 31 March				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>38,092</u>	<u>47,408</u>	<u>202,682</u>	<u>290,600</u>	<u>241,254</u>
Profit/(loss) before tax	38,268	(59,284)	(283,689)	30,286	32,029
Tax	<u>(836)</u>	<u>—</u>	<u>4,354</u>	<u>(4,091)</u>	<u>11,328</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>37,432</u>	<u>(59,284)</u>	<u>(279,335)</u>	<u>26,195</u>	<u>43,357</u>

Assets and Liabilities

	31 March				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	108,951	127,116	141,004	392,552	259,855
Total liabilities	<u>(119,965)</u>	<u>(255,512)</u>	<u>(210,576)</u>	<u>(163,841)</u>	<u>(114,032)</u>
	<u>(11,014)</u>	<u>(128,396)</u>	<u>(69,572)</u>	<u>228,711</u>	<u>145,823</u>

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below is the reproduction of the report of the auditors for the financial statements of the Group for the year ended 31 March 2003 as extracted from the Company's 2003 annual report:



To the members

Xin Corporation Limited

(Formerly Hung Fung Group Holdings Limited)

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 100 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 4 to the financial statements concerning the basis of their preparation adopted by the directors. As explained in note 4 to the financial statements, the financial statements of the Group have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities and a deficiency in assets of HK\$91,336,000 and HK\$11,014,000, respectively, as at 31 March 2003. The Group also incurred a loss

from operating activities of HK\$33,383,000 during the year and reported a net cash outflow from operating activities of HK\$33,239,000. Subsequent to the balance sheet date, the directors have initiated a number of measures to improve the Group's financial/liquidity position and relieve the Group's liquidity pressure for the immediate foreseeable future. In particular, the Group successfully negotiated to effect an open offer (the "Open Offer") of shares of the Company with expected proceeds, before related expenses, of HK\$51,726,000 (see note 4 to the financial statements). Vision Century Group Limited, the immediate holding company of the Company, has irrevocably undertaken to subscribe for the shares offered under the Open Offer and is entitled to apply for on an assured basis. The remaining offer shares are fully underwritten by an independent third party pursuant to an underwriting agreement. In addition, Huang Worldwide Holding Limited ("Huang Worldwide"), an intermediate holding company of the Company, has undertaken to provide continuing financial support to the Group to enable it to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Group (the "Financial Support").

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Open Offer, the ability of Huang Worldwide to provide the Financial Support and other measures currently undertaken by the Group as detailed in note 4 to the financial statements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures become unsuccessful. We consider that appropriate estimates and disclosures regarding the above fundamental uncertainty have been made and our opinion is not qualified in this respect.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the fact that because our opinion dated 19 July 2002 on the loss and cash flows of the Group for the year ended 31 March 2002 was qualified for the scope limitation reasons summarised in the basis of opinion section therein, any adjustments in respect of the scope limitations found to be necessary to the opening net liabilities of the Company and of the Group as at 1 April 2001 would have had a consequential effect on the results of the Company and of the Group for the year ended 31 March 2002. Accordingly, the comparatives of the consolidated profit and loss account and cash flow statement shown in these financial statements may not be comparable with the amounts for the current year.

Ernst & Young

Certified Public Accountants

Hong Kong

24 July 2003

Consolidated profit and loss accounts of the Group for the three years ended 31 March 2003, the audited consolidated balance sheets of the Group as at 31 March 2002 and 31 March 2003 together with relevant notes as extracted from the annual reports of the Company.

Consolidated Profit and Loss Account

		2003	2002	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	7	38,092	47,408	202,682
Cost of sales		<u>(50,182)</u>	<u>(57,759)</u>	<u>(209,240)</u>
Gross loss		(12,090)	(10,351)	(6,558)
Other revenue and gains	7	5,076	1,751	772
Selling and distribution costs		(3,077)	(2,164)	(2,032)
Administrative expenses		(18,856)	(24,330)	(31,158)
Other operating expenses		<u>(4,436)</u>	<u>(8,355)</u>	<u>(231,018)</u>
LOSS FROM OPERATING ACTIVITIES	8	(33,383)	(43,449)	(269,994)
Finance costs	9	(5,380)	(15,835)	(13,695)
Gain on debt restructuring, net of expenses	3	<u>77,031</u>	<u>–</u>	<u>–</u>
PROFIT/(LOSS) BEFORE TAX		38,268	(59,284)	(283,689)
Tax	12	<u>(836)</u>	<u>–</u>	<u>4,354</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	13	<u>37,432</u>	<u>(59,284)</u>	<u>(279,335)</u>
EARNINGS/(LOSS) PER SHARE	14			
Basic		<u>HK\$0.20</u>	<u>(HK\$1.15)</u>	<u>(HK\$5.42)</u>
Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheet

		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	15	97,158	111,003
CURRENT ASSETS			
Inventories	17	6,391	7,005
Accounts receivable	18	1,576	4,164
Prepayments, deposits and other receivables		938	4,498
Cash and bank balances		2,888	446
		<u>11,793</u>	<u>16,113</u>
CURRENT LIABILITIES			
Accounts payable	19	12,637	23,727
Tax payable		5	5
Interest-bearing bank and other borrowings	20	48,235	148,384
Other payables and accruals		23,752	75,478
Loans from a director	21	–	4,000
Loans from a shareholder	22	12,000	–
Convertible note and bonds	24	6,500	3,000
		<u>103,129</u>	<u>254,594</u>
NET CURRENT LIABILITIES		<u>(91,336)</u>	<u>(238,481)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,822	(127,478)
NON-CURRENT LIABILITIES			
Finance lease payables	23	–	918
Convertible note	24	16,000	–
Deferred tax	25	836	–
		<u>16,836</u>	<u>918</u>
		<u>(11,014)</u>	<u>(128,396)</u>
CAPITAL AND RESERVES			
Issued capital	26	2,155	24,839
Reserves	28(a)	(13,169)	(153,235)
		<u>(11,014)</u>	<u>(128,396)</u>

Consolidated Statement of Changes in Equity

		Issued share capital	Share premium account	Contributed surplus	Fixed asset revaluation reserve	Accumulated losses	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001		24,839	44,397	10	18,024	(156,842)	(69,572)
Net loss for the year		–	–	–	–	(59,284)	(59,284)
Revaluation surplus and net gain not recognised in the profit and loss account		–	–	–	460	–	460
At 31 March and 1 April 2002		24,839	44,397*	10*	18,484*	(216,126)*	(128,396)
Shares issued on conversion of a convertible note	26(i)	2,000	1,000	–	–	–	3,000
Shares issued on share subscription	26(iii)	30,000	–	–	–	–	30,000
Shares issued on open offer	26(iv)	40,259	–	–	–	–	40,259
Shares issued on settlement of certain trade and other creditors	26(v)	10,664	342	–	–	–	11,006
Share issue expense		–	(4,273)	–	–	–	(4,273)
Capital reduction	26(vi)(b), 28(a)	(105,607)	–	–	–	105,607	–
Share premium cancellation	26(vi)(c), 28(a)	–	(41,466)	41,466	–	–	–
Elimination of accumulated losses	28(a)	–	–	(41,476)	–	41,476	–
Revaluation deficit and net loss not recognised in the profit and loss account		–	–	–	(42)	–	(42)
Net profit for the year		–	–	–	–	37,432	37,432
At 31 March 2003		2,155	–*	–*	18,442*	(31,611)*	(11,014)

* These reserve accounts comprise the consolidated reserves of HK\$13,169,000 (2002: HK\$153,235,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

		2003	2002
	Notes	HK\$'000	HK\$'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		38,268	(59,284)
Adjustments for:			
Finance costs	9	5,380	15,835
Interest income	7	(78)	(14)
Gain on disposal of fixed assets	7, 8	–	(204)
Provision for bad and doubtful debts	8	1,556	690
Provision for inventories	8	528	–
Provision for other receivables	8	307	–
Depreciation	8	14,796	14,750
Revaluation deficit/(surplus) on land and buildings	7, 8	(82)	2,638
Write back of provision for doubtful debts	7	(435)	–
Gain on debt restructuring, before related expenses	3	(81,587)	–
Waiver of director's remuneration accrued	7	(1,405)	–
Waiver of accounts payable	7	(1,922)	–
Waiver of interest accrued on finance leases	7	(109)	–
Operating loss before working capital changes		(24,783)	(25,589)
Decrease in inventories		86	4,564
Decrease/(increase) in accounts receivable		1,467	(747)
Decrease/(increase) in prepayments, deposits and other receivables		3,253	(2,754)
Decrease in accounts payable		(8,113)	(2,497)
Increase/(decrease) in other payables and accruals		(5,044)	12,579
Cash used in operations		(33,134)	(14,444)
Interest elements on finance lease rental payments		(105)	(397)
Net cash outflow from operating activities		(33,239)	(14,841)

Consolidated Cash Flow Statement (Continued)

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> <i>(restated)</i>
Net cash outflow from operating activities	(33,239)	(14,841)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	78	14
Purchases of fixed assets	(924)	(902)
Proceeds from disposal of fixed assets	13	487
Net cash outflow from investing activities	(833)	(401)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	70,259	–
Share issue expense	(4,273)	–
Loans from a director	–	7,000
Repayment of bank loans	(15,470)	(926)
Drawdown/(repayment) of other loans	(6,000)	14,400
Loans from a shareholder	8,000	–
Capital element of finance lease rental payments	(2,833)	(2,815)
Interest paid	(5,275)	(4,376)
Net cash inflow from financing activities	44,408	13,283
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	10,336	(1,959)
Cash and cash equivalents at beginning of year	(7,448)	(5,489)
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,888	(7,448)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,888	446
Bank overdrafts	–	(7,894)
	2,888	(7,448)

Balance Sheet

		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	15	234	539
Interests in subsidiaries	16	—	—
		<u>234</u>	<u>539</u>
CURRENT ASSETS			
Due from a subsidiary	16	22,092	—
Prepayments, deposits and other receivables		—	2,944
Cash and bank balances		<u>5</u>	<u>88</u>
		<u>22,097</u>	<u>3,032</u>
CURRENT LIABILITIES			
Other payables and accruals		5,908	38,978
Interest-bearing bank and other borrowings	20	20,400	26,400
Loans from a director	21	—	4,000
Loans from a shareholder	22	12,000	—
Convertible note and bonds	24	<u>6,500</u>	<u>3,000</u>
		<u>44,808</u>	<u>72,378</u>
NET CURRENT LIABILITIES		(22,711)	(69,346)
TOTAL ASSETS LESS CURRENT LIABILITIES		(22,477)	(68,807)
NON-CURRENT LIABILITIES			
Convertible note	24	<u>16,000</u>	<u>—</u>
		<u>(38,477)</u>	<u>(68,807)</u>
CAPITAL AND RESERVES			
Issued capital	26	2,155	24,839
Reserves	28(b)	<u>(40,632)</u>	<u>(93,646)</u>
		<u>(38,477)</u>	<u>(68,807)</u>

Lo Ming Chi, Charles
Director

Yu Wai Man
Director

Notes to the Financial Statements**1. CORPORATE INFORMATION**

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

During the year, the Group was principally engaged in the design, manufacture and sale of a wide range of toys. There were no significant changes in the nature of the Group's principal activities during the year.

Vision Century Group Limited ("Vision Century"), a company incorporated in the British Virgin Islands, is the immediate holding company of the Company. In the opinion of the directors, the ultimate holding company of the Company is Huang Group (BVI) Limited, a company incorporated in the British Virgin Islands which is ultimately held by a discretionary trust.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 22 of this prospectus in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision to this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling as at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates as at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates as at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" in note 5 and in note 29(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the adoption of this SSAP.

3. RESTRUCTURING, OPEN OFFER AND CAPITAL REORGANISATION

During the year, the Group (a) implemented a restructuring, involving a subscription of new shares of the Company and the entering into of various compromise agreements with the Group's bankers and creditors; (b) effected an open offer; and (c) undertook a capital reorganisation, as further explained below:

(a) Restructuring

During the year, the Group entered into a subscription agreement with Vision Century and various compromise agreements with the Group's Hong Kong bankers (the "Bank Group") and certain creditors of the Group related to a restructuring plan (the "Restructuring"). Summary particulars of the Restructuring are set out below:

(i) Subscription agreement with Vision Century

On 1 February 2002, the Company entered into a subscription agreement for the subscription of 3,000,000,000 ordinary shares of HK\$0.01 each at par by Vision Century. The subscription agreement was completed on 16 May 2002. Upon completion of the subscription agreement, the Company received cash proceeds of HK\$30,000,000, before related expenses (note 26(iii)).

(ii) Compromise agreement with the Bank Group

Pursuant to a bank compromise agreement (the "Bank Compromise Agreement") entered into by the Group and the Bank Group on 1 February 2002, the Bank Group released and discharged the Group from all of its obligations and liabilities in respect of its bank borrowings advanced by the Bank Group (including principal and interest) outstanding as at the completion date of the Bank Compromise Agreement and released the guarantees given by the Group in favour of the Bank Group, subject to and on the terms and conditions stated therein. In consideration of this, the Bank Group (i) received a payment in cash by the Company of approximately HK\$20,000,000; and (ii) was issued eight convertible bonds with an aggregate principal amount of HK\$6,500,000 repayable by three equal annual instalments over three years by the Company. The first instalment was settled by the Company on 16 May 2003. On the basis of the total borrowings owed by the Group to the Bank Group of approximately HK\$103,105,000 (including accrued bank interest of HK\$14,235,000), an aggregate amount of approximately HK\$76,605,000 of the bank indebtedness has been waived by the Bank Group.

In addition, the Bank Group withdrew their legal proceedings against the Group to demand for immediate repayment of overdue borrowings and interest thereon, and their winding-up petitions against the Group.

(iii) Compromise agreement with the trade and other creditors

The Group entered into a compromise agreement with an entity (the "PRC Entity") owned by the local government in Mainland China in respect of the settlement of a claim of approximately HK\$23,038,000 by way of (i) a cash payment by the Company of approximately HK\$2,056,000; and (ii) the issue by the Company of a convertible note on or before 31 July 2002 in the principal amount of HK\$16,000,000 repayable on the second anniversary of its issuance. On the basis of the total amount payable of HK\$23,038,000, an aggregate amount of approximately HK\$4,982,000 has been waived by the PRC Entity.

In addition, the Group entered into compromise agreements with various creditors who are primarily trade and other creditors of the Group to settle approximately HK\$11,886,000 in aggregate owed by the Group to those creditors by way of (i) cash payments by the Group of HK\$880,000; and (ii) the issue by the Company of 1,066,440,000 ordinary shares of HK\$0.01 each at HK\$0.010 to HK\$0.015 per share for a total consideration of HK\$11,006,000. The excess consideration for the issue of the Company's shares above over the nominal value of the shares issued, amounting to approximately HK\$342,000, has been credited to the share premium account.

Upon completion of the compromise agreements with the Bank Group and creditors, the Group's indebtedness was reduced by HK\$115,529,000 by way of waivers of HK\$81,587,000, capitalisation of HK\$11,006,000 and cash settlement of HK\$22,936,000. The amounts of debts waived, net of related restructuring expenses of HK\$4,556,000, has been credited to the profit and loss account of the Group for the year.

On 13 May 2002, the Restructuring was approved by the Company's shareholders at a special general meeting. The subscription agreement with Vision Century and the compromise agreements with the Bank Group, and trade and other creditors became unconditional and were completed during the year.

3. RESTRUCTURING, OPEN OFFER AND CAPITAL REORGANISATION (Continued)**(b) Open offer**

Immediately after the completion of the Restructuring, the Company effected an open offer with assured allotments of three offer shares for every two shares of HK\$0.01 each in the Company held by the shareholders whose names appeared on the register of members of the Company on 13 May 2002.

The open offer was completed on 29 May 2002 and resulted in the issue of 4,025,905,140 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.01 per offer share. The Company received cash proceeds of approximately HK\$40,259,000, before the related open offer expenses, for the issue of shares under the open offer.

(c) Capital reorganisation

On 5 December 2002, the Company proposed to effect a capital reorganisation scheme, which involved a consolidation of every fifty issued and unissued shares of HK\$0.01 each into one consolidated share of HK\$0.50 each and the reduction of the par value of the ordinary share capital of the Company from HK\$0.50 each to HK\$0.01 each and the cancellation of the share premium account of the Company. The capital reorganisation scheme was approved by the Company's shareholders on 30 December 2002 at a special general meeting.

On 30 December 2002, the capital reorganisation scheme became effective. Further details of the capital reorganisation are set out in note 26(vi).

4. BASIS OF PRESENTATION

As at 31 March 2003, the Group had significant net current liabilities and a deficiency in assets of approximately HK\$91,336,000 and HK\$11,014,000, respectively. The Group also incurred a loss from operating activities of HK\$33,383,000 and reported a net cash outflow from operating activities of HK\$33,239,000 for the year ended 31 March 2003.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flow and otherwise to sustain the Group as a going concern, the directors of the Company (the "Directors") have adopted the following measures:

- (a) The Directors successfully negotiated to effect an open offer with assured allotments of four offer shares for every one shares of HK\$0.01 each in the Company held by the shareholders whose names appeared on the register of members of the Company on 29 August 2003.

The open offer is expected to be completed on 23 September 2003 and will result in the issue of a minimum of 862,102,552 new ordinary shares (assuming no granting or exercise of convertible note and bonds (note 24) of the Company are exercised before the open offer) and a maximum of 1,024,769,216 new ordinary shares (assuming full conversion of the outstanding convertible note and bonds before the open offer), of HK\$0.01 each in the Company at a price of HK\$0.06 per offer share based on the number of issued shares of 215,525,638 as at 31 March 2003. Upon completion of the open offer, cash proceeds of a minimum of approximately HK\$51,726,000 and a maximum of HK\$61,486,000, before the related open offer expenses, will be received by the Company.

Vision Century has irrevocably undertaken to subscribe for the shares offered under the open offer and is entitled to apply on an assured basis. Based on the shareholding position of Vision Century in the Company of 156,419,190 shares as at 31 March 2003, Vision Century will apply for 625,676,760 new ordinary shares of the Company. The remaining offer shares will be fully underwritten by Kingston Securities Limited, an independent third party, pursuant to an underwriting agreement dated 15 July 2003, subject to certain terms and conditions. Further details of the open offer are also set out in the Company's announcement dated 16 July 2003.

- (b) Further to the open offer set out above, subsequent to the balance sheet date, the Directors have succeeded to reschedule the repayment terms of certain of the Group's indebtednesses in order to improve its immediate liquidity position.

(i) The Group has obtained written consent from one of the Group's Mainland China bankers to reschedule and extend the repayment period, subject to a repayment of the principal amount of approximately HK\$841,000 and the settlement of interest payable of HK\$671,000 by the Group, of its bank borrowings as at 31 March 2003 of approximately HK\$23,458,000 for a further one year upon their original maturity in the second half of 2003.

4. BASIS OF PRESENTATION (Continued)

- (ii) Speed Up Developments Limited (“Speed Up”), an independent loan provider to the Group, has assigned its entire interest in other loans of HK\$20,400,000 together with the accrued interest of HK\$1,578,000, (the “Assigned Loans”) owed by the Group as at 31 March 2003 to Vision Century subsequent to the balance sheet date. On 2 July 2003, Vision Century granted a credit facility (the “Credit Facility”) to the Company amounting to HK\$50,000,000 to surrogate the amount due from the Company as at that date, which covered the Assigned Loans and the loan balance of HK\$12,000,000 (note 22) due to it as at 31 March 2003, additional loan balances of HK\$11,000,000 granted to the Company subsequent to 31 March 2003 and the accrued interest thereon as at that date. Vision Century has undertaken that it will not demand the Group to repay partly or wholly of any advance made to the Group under the Credit Facility before 31 October 2004.
- (iii) Certain directors have agreed that they would not demand for the Group to repay partly or wholly of a total sum of approximately HK\$1,998,000 outstanding as at 31 March 2003 in respect of their accrued emoluments unless the Group has sufficient working capital for its normal operational requirements.
- (c) The Directors have taken action to tighten cost controls over factory overheads and various general and administrative expenses.

A summary pro forma consolidated net asset statement of the Group as at 31 March 2003, which is prepared based on the audited consolidated net deficiency in assets of the Group as at 31 March 2003, adjusted as if the financing measures as set out in (a) and (b) above had taken place on 31 March 2003, is presented below.

	Pro forma adjustments		
	Audited consolidated net deficiency in assets as at 31 March 2003	Open offer (note a)	Reschedule the repayment terms of the Group's indebtedness (note b)
	HK\$'000	HK\$'000	Pro forma adjusted consolidated net assets at 31 March 2003 HK\$'000
Non-current assets	97,158	–	–
Current assets	11,793	49,735*	–
Current liabilities	(103,129)	–	59,434
Net current assets/(liabilities)	(91,336)	49,735	59,434
Non-current liabilities	(16,836)	–	(59,434)
Net assets/(deficiency in assets)	(11,014)	49,735	–
Issued capital	2,155	8,621	–
Reserves	(13,169)	41,114	–
	(11,014)	49,735	–
			38,721

* Adjusted for related expenses of HK\$1,991,000 to be paid in connection with the open offer and assumed no conversion of convertible note and bonds of the Company is exercised before the open offer.

In the opinion of the Directors, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will substantially improve its financial position and has net current assets and net assets including substantial cash resources as reflected in the above pro forma consolidated net asset statement of the Group as at 31 March 2003. In addition, Huang Worldwide Holding Limited (“Huang Worldwide”), the immediate holding company of Vision Century and incorporated in the British Virgin Islands, has undertaken to the Company, during the period up to 31 October 2004, to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Group.

4. BASIS OF PRESENTATION (Continued)

Having regard to the above measures, the Directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future and be able to operate as a commercially viable concern. Accordingly, these financial statements have been prepared on a going concern basis.

The financial statements have not incorporated any adjustments that may be required if the above measures are not successful. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong 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 periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the audited 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 within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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.

Revenue recognition

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

- (a) from the sale of goods, recognised 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 income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to accumulated losses as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land	Over the lease terms
Buildings	2% to 5%, or over the lease terms, whichever is shorter
Leasehold improvements	20% or over the lease terms, whichever is shorter
Moulds, plant and machinery	12.5% to 15%
Furniture, fixtures, equipment and motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the 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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expense for tax and for financial reporting purpose, 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.

Employee benefits*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Share option scheme

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 29(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Foreign Currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling as at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling as at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling as at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously reported cash flows of the prior year.

6. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segment represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of business segments are as follows:

- (a) the toddler cars segment manufactures and trades children's ride-on cars featuring working horns and turning wheels;
- (b) the cycling segment manufactures and trades children's bicycles, tricycles and scooters; and
- (c) the other toys segment comprises the manufacture and the trading of pre-school toys, plastic utensils and other fashionable toys.

6. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, which are North America, Europe, Central and South America, Asia Pacific region, Middle East and other regions. Assets are attributed to the segments based on the location of the assets.

There are no intersegment sales and transfers among the business segments.

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

Group	Toddler cars			Cycling			Other toys			Consolidated		
	2003	2002	2001	2003	2002	2001	2003	2002	2001	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	15,355	16,670	53,669	12,176	17,002	128,078	10,561	13,736	20,935	38,092	47,408	202,682
Other revenue	274	487	198	218	495	467	179	405	77	671	1,387	742
	<u>15,629</u>	<u>17,157</u>	<u>53,867</u>	<u>12,394</u>	<u>17,497</u>	<u>128,545</u>	<u>10,740</u>	<u>14,141</u>	<u>21,012</u>	<u>38,763</u>	<u>48,795</u>	<u>203,424</u>
Segment results	<u>(5,779)</u>	<u>(9,950)</u>	<u>(34,633)</u>	<u>(5,091)</u>	<u>(11,436)</u>	<u>(119,316)</u>	<u>(9,518)</u>	<u>(10,099)</u>	<u>(16,810)</u>	<u>(20,388)</u>	<u>(31,485)</u>	<u>(170,759)</u>
Interest income and unallocated gains										4,405	364	30
Unallocated expenses										<u>(17,400)</u>	<u>(12,328)</u>	<u>(99,265)</u>
Loss from operating activities										(33,383)	(43,449)	(269,994)
Finance costs										(5,380)	(15,835)	(13,695)
Gain on debt restructuring, net of expenses										<u>77,031</u>	<u>-</u>	<u>-</u>
Profit/(loss) before tax										38,268	(59,284)	(283,689)
Tax										<u>(836)</u>	<u>-</u>	<u>4,354</u>
Net profit/(loss) from ordinary activities attributable to shareholders										<u>37,432</u>	<u>(59,284)</u>	<u>(279,335)</u>

6. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group	Toddler cars		Cycling		Other toys		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	7,291	9,781	7,799	11,360	7,694	9,263	22,784	30,404
Unallocated assets							86,167	96,712
Total assets							108,951	127,116
Segment liabilities	6,277	18,196	6,127	13,492	6,044	9,075	18,448	40,763
Unallocated liabilities							101,517	214,749
Total liabilities							119,965	255,512
Other segment information:								
Depreciation	928	912	1,670	1,701	1,235	1,226	3,833	3,839
Unallocated amounts							10,963	10,911
							14,796	14,750
Other non-cash expenses	702	417	947	126	742	147	2,391	690
Unallocated amounts							–	6,838
							2,391	7,528
Capital expenditure	–	228	27	150	4	114	31	492
Unallocated amounts							893	4,920
							924	5,412

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Asia Pacific region																	
	North America						Central and South America			(including Hong Kong and Mainland China)			Middle East and other regions			Consolidated		
	2003	2002	2001	2003	2002	2001	2003	2002	2001	2003	2002	2001	2003	2002	2001	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																		
Sales to external customers	5,441	11,204	52,546	13,958	14,060	36,231	7,051	11,640	25,963	9,308	7,942	77,705	2,334	2,562	10,237	38,092	47,408	202,682
Group	Asia Pacific region																	
	North America				Europe		Central and South America		(including Hong Kong and Mainland China)		Middle East and other regions		Consolidated					
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
Other segment information:																		
Segment assets		295	1,979		269	557		–	48	108,297	124,062		90	470	108,951	127,116		
Capital expenditure		–	–		–	–		–	–	924	5,412		–	–	924	5,412		

7. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover, other revenue and gains is as follows:

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover			
Sale of goods	38,092	47,408	202,682
Other revenue			
Interest income	78	14	63
Others	921	466	562
	999	480	625
Gains			
Gain on disposal of fixed assets	–	243	–
Revaluation surplus on land and buildings	82	–	–
Exchange gains, net	124	16	147
Write back of provision for bad and doubtful debts	435	–	–
Waiver of accounts payable	1,922	1,012	–
Waiver of interest accrued on finance leases	109	–	–
Waiver of a director's remuneration accrued (<i>note 10</i>)	1,405	–	–
	4,077	1,271	147
	5,076	1,751	772

8. LOSS FROM OPERATING ACTIVITIES

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

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	22,657	30,008	168,245
Depreciation	14,796	14,750	17,973
Provision for bad and doubtful debts:			
Accounts receivable	1,556	690	117,781
Other receivables	307	–	6,734
	1,863	690	124,515
Minimum lease payments under operating leases			
in respect of land and buildings	407	971	675
Auditors' remuneration	750	750	1,680
Staff costs (excluding directors' remuneration – <i>note 10</i>):			
Salaries and wages	10,841	12,028	15,086
Retirement benefits scheme contributions	153	137	41
	10,994	12,165	15,127
Revaluation deficit/(surplus) on land and buildings	(82)	2,638	3,073
Provision for inventories	528	–	6,615
Loss on disposal of fixed assets	–	39	2,231
Provision for impairment of fixed assets	–	–	54,981
Provision for advances to a company	–	–	5,177
Provision for deposits made to certain suppliers	–	–	4,635
Provision for unrecoverable inventories held by a company	–	–	11,791
Provision for potential claims	–	–	18,000

8. LOSS FROM OPERATING ACTIVITIES (Continued)

Cost of sales includes approximately HK\$18,145,000 (2002: HK\$18,092,000; 2001: HK\$22,494,000) relating to staff costs and depreciation which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

As at 31 March 2003, the Group had no forfeited contributions available to reduce its contributions to retirement benefits schemes in future years (2002 and 2001: Nil).

9. FINANCE COSTS

	2003	Group 2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	4,701	15,268	12,987
Interest on convertible notes and bonds	574	150	63
Interest on finance leases	105	417	645
	<u>5,380</u>	<u>15,835</u>	<u>13,695</u>

10. DIRECTORS' REMUNERATION

Particulars of directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2003	Group 2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:			
Executive directors	–	–	–
Independent non-executive directors	220	323	326
	<u>220</u>	<u>323</u>	<u>326</u>
Other emoluments of executive directors:			
Basic salaries, other allowances and benefits in kind	1,500	1,624	3,641
Retirement benefits scheme contributions	72	90	22
	<u>1,572</u>	<u>1,714</u>	<u>3,663</u>
	<u>1,792</u>	<u>2,037</u>	<u>3,989</u>

The number of directors whose remuneration fell within the following bands is as follows:

	2003	Group 2002	2001
	<i>Number of directors</i>	<i>Number of directors</i>	<i>Number of directors</i>
Nil to HK\$1,000,000	6	6	12
HK\$1,000,001 to HK\$1,500,000	–	1	1
	<u>6</u>	<u>7</u>	<u>13</u>

During the year, a director of the Company waived remuneration of HK\$1,405,000 payable to him (2002 and 2001: Nil).

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2002 and 2001: Nil).

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2002: two; 2001: five) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2002: three; 2001: nil) non-director, highest paid individuals are as follows:

	2003 <i>HK\$'000</i>	Group 2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries, other allowances and benefits in kind	833	878	–
Retirement benefits scheme contributions	42	44	–
	<u>875</u>	<u>922</u>	<u>–</u>

The remuneration of all non-director, highest paid individuals fell within the band of nil to HK\$1,000,000 for the years ended 31 March 2003, 2002 and 2001.

During the year, there were no bonuses paid to or receivable by any of the five highest paid individuals of the Group (2002 and 2001: Nil). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2002 and 2001: Nil).

12. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong:			
Overprovision in the prior year	–	–	54
Deferred tax	–	–	4,300
	<u>–</u>	<u>–</u>	<u>4,354</u>
Tax credit for the year	<u>–</u>	<u>–</u>	<u>4,354</u>

The current year's tax charge of HK\$836,000 represents the provision for deferred tax in respect of accelerated depreciation allowance (note 25).

There was no unprovided deferred tax for the Company and the Group in respect of the year (2002 and 2001: Nil).

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company is HK\$49,662,000 (2002: net profit of HK\$37,461,000; 2001: net loss of HK\$252,403,000).

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$37,432,000 (2002: net loss of HK\$59,284,000; 2001: net loss of HK\$279,335,000) and the weighted average of 189,063,902 (2002: 51,551,624; 2001: 51,551,302) restated to reflect the share consolidation during the year (note 26(vi)(a)) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 March 2003, 2002 and 2001 have not been disclosed, as the exercise prices of the outstanding share options of the Company were greater than the average market prices of the Company's shares during those years, and therefore the share options had no dilutive effect on the basic earnings/(loss) per share for the years ended 31 March 2003, 2002 and 2001.

15. FIXED ASSETS

Group

	Medium term leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Moulds, plant and machinery <i>HK\$'000</i>	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:						
At beginning of year	94,950	22,508	88,051	3,909	32,288	241,706
Additions	–	66	137	721	–	924
Disposals	–	–	(13)	–	–	(13)
Deficit on revaluation	(10,200)	–	–	–	–	(10,200)
Write off	(8,600)	–	–	–	–	(8,600)
At 31 March 2003	76,150	22,574	88,175	4,630	32,288	223,817
Accumulated depreciation and impairment:						
At beginning of year	16,046	17,456	62,016	2,897	32,288	130,703
Provided during the year	2,794	4,490	6,908	604	–	14,796
Reversal upon revaluation	(10,240)	–	–	–	–	(10,240)
Write off	(8,600)	–	–	–	–	(8,600)
At 31 March 2003	–	21,946	68,924	3,501	32,288	126,659
Net book value:						
At 31 March 2003	76,150	628	19,251	1,129	–	97,158
At 31 March 2002	78,904	5,052	26,035	1,012	–	111,003
Analysis of cost or valuation:						
At cost	–	22,574	88,175	4,630	32,288	147,667
At 31 March 2003 valuation	76,150	–	–	–	–	76,150
	76,150	22,574	88,175	4,630	32,288	223,817

Company

	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>
Cost:	
At beginning of year and at 31 March 2003	615
Accumulated depreciation:	
At beginning of year	76
Provided during the year	305
At 31 March 2003	381
Net book value:	
At 31 March 2003	234
At 31 March 2002	539

15. FIXED ASSETS (Continued)

All the Group's medium term leasehold land and buildings are situated outside Hong Kong. All the Group's leasehold land and buildings were revalued by Knight Frank Hong Kong Limited, independent professionally qualified valuers, on a depreciated replacement cost basis as at 31 March 2003 at HK\$76,150,000.

A total revaluation surplus of HK\$82,000 arising therefrom and representing the surplus of the revalued amounts over the then carrying values of the revalued assets, on an individual asset basis, has been credited to the profit and loss account.

A total revaluation deficit of HK\$42,000 arising therefrom and representing the shortfall of the revalued amount under the then carrying value of a revalued asset, on an individual asset basis, has been debited to the fixed asset revaluation reserve to the extent that the corresponding reserve brought forward is sufficient to cover the deficit.

Had the Group's revalued leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts would have been approximately HK\$60,665,000 (2002: HK\$63,596,000).

Certain leasehold land and buildings, plant and machinery and equipment with an aggregate carrying value of HK\$45,400,000 (2002: HK\$47,500,000) as at 31 March 2003 were pledged to secure bank borrowings advanced to the Group as set out in note 20 to the financial statements.

Pursuant to various sale and purchase agreements (the "S&P Agreements") entered into between the Group and an independent third party, during the years 1998 and 1999, the Group acquired certain leasehold land (the "Land") in Mainland China with a carrying value of HK\$29,000,000, as at 31 March 2003. Pursuant to the S&P Agreements, the Group is required to pay annual fees of HK\$118,000 in respect of the Land commencing from 2008 up to 2048 with a 20% increment for every five years.

The Group has not yet obtained the land-use rights certificate for the Land. As confirmed by the legal opinion issued by the Group's Mainland China lawyers, subject to the payment of a land premium of approximately HK\$9.8 million, which has been fully provided for in these financial statements, there is no legal barrier or otherwise for the Group to obtain a land-use rights certificate for the Land from the relevant Mainland China authority.

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery as at 31 March 2003 amounted to HK\$2,354,000 (2002: HK\$6,833,000).

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	68,709	68,709
Less: Provision for impairment	(68,709)	(68,709)
	<u>—</u>	<u>—</u>
Due from a subsidiary	189,618	100,555
Less: Provision	(167,526)	(100,555)
	<u>22,092</u>	<u>—</u>
	<u>22,092</u>	<u>—</u>

The amounts due from a subsidiary included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hung Cheong Holdings Limited	British Virgin Islands ("BVI")/ Hong Kong	Ordinary US\$2,004	100	–	Investment holding
Hung Cheong Toys Factory Limited	BVI/ Hong Kong	Ordinary US\$4	100	–	Manufacturing and trading of toy products
Able Market Profits Limited	BVI	Ordinary US\$1	100	–	Investment holding
Hung Cheong Toys International Limited ("HCT")	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$200,000*	–	100	Dormant
Xin Toys International Limited (Formerly H&C International Toys Limited)	Hong Kong	Ordinary HK\$2	–	100	Trading of toy products
Huang Chiang Chen Hung Cheong Plastics Factory Company Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$10,000*	–	100	Property holding

* The non-voting deferred shares carry no rights to dividends other than a fixed non-cumulative dividend at the rate of 5% per annum on the excess of the net profit over HK\$1,000,000,000,000 that the company may determine to distribute in respect of any financial year. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of the company, to a return of the capital paid up on the non-voting deferred shares held by them respectively, after a total sum of HK\$1,000,000,000,000 has been distributed in such a winding-up in respect of each of the ordinary shares of the company. Save as described above, the holders of the non-voting deferred shares are not entitled to any participation in the profit or surplus assets of the company and shall not be entitled to receive notice of or to attend or vote at any general meeting of the company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for 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.

17. INVENTORIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	1,943	2,524
Work in progress	432	599
Finished goods	4,016	3,882
	<u>6,391</u>	<u>7,005</u>

The carrying amount of inventories carried at net realisable value included in the above balance was approximately HK\$67,000 (2002: HK\$89,000) as at the balance sheet date.

18. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. Overdue balances are reviewed regularly by senior management.

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	1,018	2,464
31 to 60 days	106	360
61 to 90 days	1	305
91 to 180 days	436	1,003
Over 180 days	15	32
	<u>1,576</u>	<u>4,164</u>

19. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	336	1,947
31 to 60 days	404	834
61 to 90 days	247	703
91 to 180 days	206	2,361
Over 180 days	11,444	17,882
	<u>12,637</u>	<u>23,727</u>

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts:				
Secured	–	1,481	–	–
Unsecured	–	6,413	–	–
	<u>–</u>	<u>7,894</u>	<u>–</u>	<u>–</u>
Bank loans:				
Trust receipt	–	18,098	–	–
loans – secured	–	54,480	–	–
– unsecured	–	72,578	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Other bank				
loans – secured	26,869	30,233	–	–
– unsecured	–	8,398	–	–
	<u>26,869</u>	<u>38,631</u>	<u>–</u>	<u>–</u>
Total bank loans	<u>26,869</u>	<u>111,209</u>	<u>–</u>	<u>–</u>
Other loans – unsecured	<u>20,400</u>	<u>26,400</u>	<u>20,400</u>	<u>26,400</u>
	47,269	145,503	20,400	26,400
Current portion of finance				
lease payables (note 23)	966	2,881	–	–
	<u>48,235</u>	<u>148,384</u>	<u>20,400</u>	<u>26,400</u>

All the Group's bank overdrafts, bank loans, trust receipt loans and other loans as at 31 March 2003 are repayable within one year or on demand.

At 31 March 2003, the banking facilities of the Group were supported by:

- (i) certain leasehold land and buildings of the Group in Mainland China with an aggregate carrying value of approximately HK\$45,400,000 (2002: HK\$47,500,000); and
- (ii) corporate guarantees executed by certain subsidiaries of the Company.

21. LOANS FROM A DIRECTOR

The loans from a director were unsecured, bore interest at the prime lending rate in Hong Kong plus 3% per annum and were assigned to a shareholder during the year (note 29(b)(v)).

22. LOANS FROM A SHAREHOLDER

The loans from a shareholder are unsecured, bear interest at the prime lending rate in Hong Kong plus 3% per annum and are repayable on demand.

Subsequent to the balance sheet date, the shareholder has undertaken that it will not demand the Group to repay partly or wholly of the loans advanced to the Group before 31 October 2004 (note 4).

23. FINANCE LEASE PAYABLES

The Group leased certain of its plant and machinery, and motor vehicles during the year. These leases are classified as finance leases and have remaining lease terms of less than one year.

As at 31 March 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	990	3,025	966	2,881
In the second year	—	1,186	—	918
	<u>990</u>	<u>4,211</u>	<u>966</u>	<u>3,799</u>
Total minimum finance lease payments	<u>990</u>	<u>4,211</u>	<u>966</u>	<u>3,799</u>
Future finance charges	<u>(24)</u>	<u>(412)</u>		
Total net finance lease payables	966	3,799		
Portion classified as current liabilities (<i>note 20</i>)	<u>(966)</u>	<u>(2,881)</u>		
Long term portion	<u>—</u>	<u>918</u>		

24. CONVERTIBLE NOTES AND BONDS

The Company has issued the following convertible notes and bonds:

- (i) Pursuant to the Bank Compromise Agreement, the Bank Group was issued convertible bonds with an aggregate principal amount of HK\$6,500,000 by the Company on 16 May 2002. The convertible bonds bear interest at the rate of 5% per annum and are repayable by three equal instalments on each anniversary of the issue of convertible bonds. The interests are payable semi-annually. The first instalment was settled by the Company on 16 May 2003. The second and third instalment of the convertible bonds are repayable on 16 May 2004 and 16 May 2005, respectively, subject to terms and conditions pursuant to the convertible bonds instruments which the Company is presently unable to meet. Accordingly, the convertible bonds have been considered by the directors to be repayable on demand and have been classified as current liabilities in the balance sheet as at 31 March 2003. Pursuant to the convertible bonds instruments, the convertible bonds are convertible to the shares of the Company at a conversion price of HK\$0.01 per share, which was adjusted to HK\$0.50 per share as a result of a share consolidation implemented by the Company on 30 December 2002 (note 26(vi)(a)), at any time during the period from the issue date up to and including 16 May 2005. The Company may at any time, after the issue of the convertible bonds, redeem all or part of the convertible bonds at a value equivalent to 105% of the outstanding principal amounts of the convertible bonds. Further details of the Bank Compromise Agreement are set out in note 3(a)(ii) to the financial statements.
- (ii) Pursuant to a compromise agreement entered into between the Company and the PRC Entity in respect of the settlement of its claim, the PRC Entity was issued a convertible note in the principal amount of HK\$16,000,000 by the Company on 30 July 2002. The convertible note is repayable on the second anniversary of its issuance and bears interest at 3% per annum, payable semi-annually. The convertible note is convertible to shares of the Company at a conversion price of HK\$0.01 per share at any time, which was adjusted to HK\$0.50 per share as a result of a share consolidation implemented by the Company on 30 December 2002 (note 26(vi)(a)), during the period from the issue date up to and including 30 July 2004. The Company may at any time, after the date of issue of the convertible note, redeem the whole or any part of the convertible note at par value. Further details of the compromise agreement entered into between the Company and the PRC Entity are set out in note 3(a)(iii) to the financial statements.

24. CONVERTIBLE NOTES AND BONDS (Continued)

- (iii) On 30 October 2000, the Company entered into a conditional subscription agreement with Join Asia Enterprises Limited ("Join Asia"), which is an independent third party not connected with the Group. Pursuant to the conditional subscription agreement, the Company issued a convertible note of HK\$3,000,000 to Join Asia. The convertible note was issued at 100% of its principal amount, bore interest at the rate of 5% per annum and was payable on 16 November 2002. On 6 May 2002, Join Asia converted in full the convertible note at the conversion price of HK\$0.015 per share which resulted in the issuance of 200,000,000 shares (note 26(i)) of HK\$0.01 each in the Company.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Convertible bonds issued to the Bank		
Group repayable on demand	6,500	–
Convertible note issued to the PRC		
Entity repayable in the second year	16,000	–
Convertible note issued to Join Asia	–	3,000
	<u>22,500</u>	<u>3,000</u>
Portion classified as current liabilities	<u>(6,500)</u>	<u>(3,000)</u>
Non-current portion	<u><u>16,000</u></u>	<u><u>–</u></u>

25. DEFERRED TAX

	Group 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At beginning of year	–	–
Charge for the year (<i>note 12</i>)	<u>836</u>	<u>–</u>
At end of year	<u><u>836</u></u>	<u><u>–</u></u>

The principal amounts of the Group's deferred tax assets not recognised for in the financial statements as at the balance sheet date were as follows:

	Not provided 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Tax losses carried forward	<u><u>5,283</u></u>	<u><u>17,404</u></u>

No deferred tax has been provided on the revaluation surplus of the Group's leasehold land and buildings situated in Mainland China as the Group presently does not have any intention to dispose of its leasehold land and buildings.

The Company and the Group had no unprovided deferred tax as at the balance sheet date (2002: Nil).

26. SHARE CAPITAL

	Group 2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
1,500,000,000 (2002: 10,000,000,000) ordinary shares of HK\$0.01 each	<u>15,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
215,525,638 (2002: 2,483,936,760) ordinary shares of HK\$0.01 each	<u>2,155</u>	<u>24,839</u>

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

- (i) On 6 May 2002, the convertible note of HK\$3,000,000 issued to Join Asia was converted into 200,000,000 ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$0.015 per share. The excess of the principal amount of the convertible note upon conversion over the nominal value of the shares issued, amounted to HK\$1,000,000, was credited to the share premium account.
- (ii) Pursuant to an ordinary resolution passed at a special general meeting held on 13 May 2002, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of an additional 20,000,000,000 shares of HK\$0.01 each.
- (iii) On 16 May 2002, the subscription agreement entered into by the Company and Vision Century was completed which resulted in the issue of 3,000,000,000 ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.01 per share. Cash proceeds of HK\$30,000,000, before related expenses, were received by the Company.
- (iv) On 29 May 2002, the open offer detailed in note 3(b) was completed. A total of 4,025,905,140 new ordinary shares of HK\$0.01 each in the Company were issued. Cash proceeds of approximately HK\$40,259,000, before the related expenses, were received by the Company.
- (v) Pursuant to various compromise agreements entered into by the Group with certain trade and other creditors detailed in 3(a)(iii), the Company issued 1,066,440,000 ordinary shares of HK\$0.01 each at prices ranging from HK\$0.01 to HK\$0.015 each to the trade and other creditors. The excess of the debt amounts settled by way of the Company's shares issued over the nominal value of the shares issued, amounting to approximately HK\$342,000, was credited to the share premium account.
- (vi) Pursuant to special and ordinary resolutions passed at a special general meeting of the Company held on 30 December 2002, a capital reorganisation (the "Capital Reorganisation") involving, inter alia, the following was implemented:
 - (a) a consolidation of every fifty issued and unissued shares of HK\$0.01 each into one consolidated share (the "Consolidated Share") of HK\$0.50 each;
 - (b) a reduction of the nominal value of each issued Consolidated Share from HK\$0.50 each to HK\$0.01 each by the cancellation of HK\$0.49 per share and the credit arising therefrom amounting to HK\$105,607,000 (the "Capital Reduction");
 - (c) the cancellation of the entire amount standing to the credit of the share premium account of the Company and a transfer of the credit arising therefrom to the contributed surplus account of the Company (note 28(b));
 - (d) the cancellation of the existing authorised and unissued share capital of the Company to HK\$15,000,000 comprising 1,500,000,000 consolidated shares of HK\$0.01 each, ranking *pari passu* in all respects with the existing share capital of the Company; and
 - (e) the application of the credit arising from the Capital Reduction and the credit arising from the share premium cancellation were applied in full, together with the amount standing in the contributed surplus to eliminate the accumulated losses of the Company.

Further details of the Capital Reorganisation are also set out in the circular of the Company dated 5 December 2002.

26. SHARE CAPITAL (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's authorised and issued ordinary share capital is as follows:

Authorised share capital

	Notes	Number of authorised shares '000	HK\$'000
At 1 April 2001 and 1 April 2002		10,000,000	100,000
Increase in authorised share capital	(ii)	20,000,000	200,000
Share cancellation	(vi)(d)	(28,500,000)	(285,000)
At 31 March 2003		<u>1,500,000</u>	<u>15,000</u>

Issued share capital

	Notes	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2001 and 1 April 2002		2,483,936,760	24,839	44,397	69,236
Shares issued on conversion of convertible note	(i)	200,000,000	2,000	1,000	3,000
Shares issued on share subscription	(iii)	3,000,000,000	30,000	–	30,000
Shares issued on open offer	(iv)	4,025,905,140	40,259	–	40,259
Shares issued on settlement of certain trade and other creditors	(v)	1,066,440,000	10,664	342	11,006
Share consolidation	(vi)(a)	(10,560,756,262)	–	–	–
Capital reduction	(vi)(b)	–	(105,607)	–	(105,607)
Share issue expense		–	–	(4,273)	(4,273)
Share premium cancellation	(vi)(c)	–	–	(41,466)	(41,466)
At 31 March 2003		<u>215,525,638</u>	<u>2,155</u>	<u>–</u>	<u>2,155</u>

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 27 below.

27. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 5 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option schemes are now included in notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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

27. SHARE OPTION SCHEMES (Continued)

Pursuant to the share option scheme adopted by the Company on 17 February 1998 (the “Old Scheme”), the directors of the Company were authorised, on or before 16 February 2008, at their discretion to invite any employees, including executive directors of the Company or any of its subsidiaries, to take up options to subscribe for shares of the Company. The subscription price was the higher of the nominal value of the shares of the Company and 80% of the average of the closing prices per share of the Company’s share on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the share options. The maximum number of shares in respect of which options were granted under the Old Scheme might not exceed, in nominal value, 10% of the issued share capital of the Company from time to time which had been duly allotted and issued. The maximum number of shares in respect of which options might be granted to any one employee or director might not exceed 25% of the aggregate number of shares in respect of which options were issued and issuable under the Old Scheme. There was no share option granted under the Old Scheme which remained outstanding as at 31 March 2003.

In order to comply with the new requirements of Chapter 17 of the Listing Rules on granting options under share option schemes, which took effect from 1 September 2001, the Old Scheme was terminated and a new share option scheme (the “New Scheme”) was adopted pursuant to the ordinary resolutions passed by the shareholders at the special general meeting of the Company held on 30 December 2002. Upon adoption of the New Scheme, no options will be granted under the Old Scheme from 30 December 2002.

Under the New Scheme, eligible participants include the Company’s directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholders in the Company’s subsidiaries. The New Scheme became effective on 30 December 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. As at 31 March 2003, no share options were granted under the New Scheme. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Under the New Scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options under the New Scheme may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1.0 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the New Scheme, if earlier.

The exercise price of the share options granted under the New Scheme is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

27. SHARE OPTION SCHEMES (Continued)

The movements of the share options granted under the Old Scheme during the year are set out below:

Name or category of participant	Number of share options		At 31 March 2003	Date of grant of share options *	Exercise period of share options	Exercise price of share options **	Share price of the Company at grant date ***
	At 1 April 2002	Cancelled during the year					
Other employees:							
In aggregate	<u>13,700,000</u>	<u>(13,700,000)</u>	<u>–</u>	20-July-1999	21-July-1999 to 16-February-2008	0.046	0.05

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

28. RESERVES

(a) 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 22 of this prospectus.

The Group's contributed surplus originally represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation on 17 February 1998, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the Capital Reorganisation implemented during the year, the credits arising from the Capital Reduction and share premium cancellation and the amount standing in the contribution surplus account were applied to eliminate the accumulated losses of the Group.

(b) Company

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2001		44,397	68,509	(244,013)	(131,107)
Net profit for the year		<u>–</u>	<u>–</u>	<u>37,461</u>	<u>37,461</u>
At 31 March and 1 April 2002		44,397	68,509	(206,552)	(93,646)
Shares issued on conversion of a convertible note	26(i)	1,000	–	–	1,000
Shares issued on settlement of certain trade and other creditors	26(v)	342	–	–	342
Share issue expense		(4,273)	–	–	(4,273)
Share premium cancellation	26(vi)(c)	(41,466)	41,466	–	–
Elimination of accumulated losses	26(vi)(e)	–	(109,975)	215,582	105,607
Net loss for the year		<u>–</u>	<u>–</u>	<u>(49,662)</u>	<u>(49,662)</u>
At 31 March 2003		<u>–</u>	<u>–</u>	<u>(40,632)</u>	<u>(40,632)</u>

28. RESERVES (Continued)

The contributed surplus of the Company originally represents the excess of the then combined net asset value of the subsidiaries acquired pursuant to the Group's reorganisation referred to in (a) above, over the nominal value of the Company's shares issued in exchange therefor.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Prior year adjustments**

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest received is now included in cash flows from investing activities and interest paid is now included in cash flow from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

Also, the definition of "cash equivalents" under the SSAP 15 (Revised) has been revised as explained under the heading "Cash and cash equivalents" in note 5 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement as at 31 March 2002 has been adjusted to remove trust receipt loans amounting to HK\$72,578,000, previously included as at that date. The current year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative consolidated cash flow statement has been changed accordingly.

(b) Major non-cash transactions

The Group had the following major non-cash transactions during the year:

- (i) Join Asia converted in full the convertible note of HK\$3,000,000 issued by the Company at the conversion price of HK\$0.015 per share into 200,000,000 shares of HK\$0.01 each in the Company which did not result in any cash flow (note 24(iii)).
- (ii) Pursuant to the Bank Compromise Agreement, the Bank Group was issued convertible bonds with an aggregate principal amount of HK\$6,500,000 by the Company as part of the consideration for releasing and discharging the Group from all its obligations and liabilities in respect of the Group's borrowings advanced by the Bank Group (notes 3(a)(ii) and 24(i)). The issue of these convertible bonds did not result in any cash flow.
- (iii) Pursuant to a compromise agreement between the Company and the PRC Entity in respect of the settlement of its claims, the PRC Entity was issued by the Company a convertible note in the principal amount of HK\$16,000,000 (notes 3(a)(iii) and 24(ii)). The issue of this convertible note did not result in any cash flow.
- (iv) Pursuant to various compromise agreements entered into by the Group with certain trade and other creditors, the Company issued 1,066,440,000 shares of HK\$0.01 each for an aggregate amount of HK\$11,006,000 in respect of the settlement of debts owed to trade creditors of HK\$1,055,000 and other creditors of HK\$9,951,000 (notes 3(a)(iii) and 26(v)). The issue of shares by the Company did not result in any cash flow.
- (v) During the year, the principal amount of the loans from a director of HK\$4,000,000 was assigned to a shareholder which did not result in any cash flow (note 35(iii)).
- (vi) The Capital Reorganisation as detailed in note 26(vi) implemented during the year did not result in any cash flow.

30. PLEDGE OF ASSETS

Details of the Group's bank and other borrowings, which are secured by assets of the Group, are included in notes 15 and 20 to the financial statements.

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for a term of two years.

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

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	248	398
In the second to fifth years, inclusive	—	248
	<u>248</u>	<u>646</u>

In addition, pursuant to various agreements entered into between the Group and an unrelated party in Mainland China, the Group is required to pay annual fees of HK\$118,000 in respect of certain leasehold land of the Group in Mainland China, with a carrying value of HK\$29,000,000 as at 31 March 2003, commencing from the year 2008 up to the year 2048 with a 20% increment for every five years (note 15).

32. COMMITMENTS

Neither the Company nor the Group had any significant capital commitments as at the balance sheet date (2002: Nil).

33. PENDING LITIGATIONS

- (i) Claims for outstanding trade debts were brought by several suppliers against HCT during the year in respect of goods supplied and services provided for, together with interest, costs and/or other relief, of approximately HK\$2,592,000 in aggregate. The Group subsequently filed defences. No further action has been taken by the suppliers. A full provision for HK\$2,592,000 has been made in these financial statements.
- (ii) As at the date of the 2003 annual report, writs of summons had been issued by other miscellaneous creditors, together with claims for interest thereon, in respect of purchases of goods and provision of services, aggregating approximately HK\$1,095,000. A full provision for HK\$1,095,000 has been made in these financial statements.

In the opinion of the directors, adequate provisions have been made by the Group in respect of all the above claims in the Group's financial statements as at 31 March 2003.

34. POST BALANCE SHEET EVENTS

- (i) On 15 May 2003, the Company settled the first instalment of the convertible bonds issued to the Bank Group of approximately HK\$2,167,000.
- (ii) On 15 July 2003, the Company entered into an underwriting agreement with Kingston Securities Limited in respect of an open offer with assured allotment of four offer shares for every one share of HK\$0.01 each in the Company.

The open offer is expected to be completed on 23 September 2003 and will result in the issue of 862,102,552 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.06 per share based on the number of issued shares of 215,525,638 as at 31 March 2003. Cash proceeds of approximately HK\$51,726,000, before related open offer expenses, will be received by the Company (note 4(a)).

- (iii) Subsequent to the balance sheet date, Vision Century advanced addition loans of HK\$11,000,000 to the Group. The advance from Vision Century bears interest at the prime lending rate in Hong Kong plus 3% per annum.
- (iv) Subsequent to the balance sheet date, in July 2003, Speed Up has assigned its entire interest in other loans of HK\$20,400,000 together with the accrued interest, which were advanced to the Group to Vision Century (note 4(b)(ii)).

34. POST BALANCE SHEET EVENTS (Continued)

- (v) Subsequent to the balance sheet date, the Group agreed with, or obtained written consent from, certain creditors to reschedule the repayment terms of the Group's indebtedness. Further details of such agreements are set out in note 4(b) to the financial statements.
- (vi) Pursuant to a board resolution passed by the directors on 16 July 2003, the authorised share capital of the Company was proposed to be increased from HK\$15,000,000 to HK\$100,000,000 by the creation of additional 8,500,000,000 shares of HK\$0.01 each in the Company.

35. RELATED PARTY TRANSACTIONS

- (i) During the year, Vision Century subscribed for 3,000,000,000 ordinary shares of HK\$0.01 each in the Company pursuant to a subscription agreement dated 1 February 2002 entered into with the Company. Further details of the share subscription are set out in note 3(a)(i).
- (ii) The Company entered into an underwriting agreement with Vision Century on 1 February 2002 in respect of underwriting an aggregate of 4,025,905,140 shares by Vision Century under an open offer with assured allotment of three offer shares for every two shares of HK\$0.01 each in the Company. The open offer completed on 29 May 2002 and resulted in the issuance of 2,300,299,500 shares of HK\$0.01 each in the Company to Vision Century.
- (iii) Mr. Lo Ming Chi ("Mr. Lo"), a director of the Company, advanced loans of HK\$4,000,000 (2002: HK\$7,000,000) to the Group during the year. The loans were unsecured, bore interest at the prime lending rate in Hong Kong plus 3% per annum and were repayable on demand. During the year, the loans advanced from Mr. Lo were assigned in full to Vision Century (note 29(b)(v)). Accordingly, the outstanding balance of the loans advanced by Mr. Lo was nil as at 31 March 2003. The interest expenses incurred by the Group during the year in respect of the loans from Mr. Lo amounted to HK\$415,000.
- (iv) Vision Century advanced loans of HK\$8,000,000 (2002: Nil) to the Group during the year. The loans are unsecured, bear interest at the prime lending rate in Hong Kong plus 3% per annum and are repayable on demand. Together with the loans assigned from Mr. Lo as mentioned in (iii) above to Vision Century, the Group owed Vision Century HK\$12,000,000 in aggregate as at 31 March 2003 (2002: Nil). The interest expenses incurred by the Group during the year in respect of the loans from Vision Century amounted to HK\$127,000.
- (v) Get Start Holdings Limited, the former immediate holding company of Vision Century, had undertaken to the Company, during the period up to 31 May 2003, to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operations as a viable going concern notwithstanding any present or future financial difficulties experienced by the Group.

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 July 2003.

4. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Set out below is the pro forma statement of the unaudited adjusted consolidated net tangible assets of the Group based on the audited consolidated deficiency in assets of the Group as at 31 March 2003 and adjusted as follows:

	<i>HK\$'000</i>
Audited consolidated deficiency in assets of the Group as at 31 March 2003	(11,014)
Add: Issue of New Shares under the Subscription	1,998
Net proceeds from the Open Offer	<u>49,735</u>
Unaudited adjusted consolidated net tangible assets of the Group after completion of the Subscription and Open Offer	<u><u>40,719</u></u>
	<i>HK cents</i>
Audited consolidated deficiency in assets per Share prior to completion of the Subscription and Open Offer (<i>Note 2</i>)	<u><u>(5.1)</u></u>
Pro forma unaudited adjusted consolidated net tangible assets per Share upon completion of the Subscription and Open Offer (<i>Note 3</i>)	<u><u>3.7</u></u>

Notes:

1. The pro forma statement of unaudited adjusted consolidated net tangible assets prepared above does not take into account the effect upon conversion of the outstanding Convertible Note and the Convertible Bonds.
2. Based on the existing issued share capital of 215,525,638 Shares.
3. Based on the enlarged issued share capital of 1,102,720,190 Shares after the completion of the Subscription and Open Offer.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2003, the date to which the latest audited financial statements of the Company were made up.

6. INDEBTEDNESS

At the close of business on 30 June 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK\$90.1 million comprising secured bank loans of approximately HK\$26.3 million, unsecured other loans (the “Unsecured Other Loans”) of approximately HK\$20.4 million, unsecured loans from the immediate holding company of the Company (the “Immediate Holding Company”) of approximately HK\$20.0 million, convertible note payable of approximately HK\$16.0 million, convertible bonds payable of approximately HK\$4.3 million and accrued interest payable of aforesaid indebtedness of approximately HK\$3.1 million.

As at 30 June 2003, the Group’s bank loans were secured by legal charges on certain of the Group’s medium term leasehold land and buildings situated outside Hong Kong and corporate guarantee executed by a subsidiary of the Company.

In addition to the above, as at 30 June 2003, the Group had outstanding claims in respect of pending litigations as detailed in note 7 of Appendix II to this prospectus.

Save as aforesaid and apart from intra-group liabilities, none of the companies comprising the Group had outstanding at the close of business on 30 June 2003, any mortgage, charges or debentures, loan capital issued and outstanding or agree to be issued, bank overdrafts and loans, debt security or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits or any hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities.

Subsequent to 30 June 2003, the loan provider of the Unsecured Other Loans has assigned its entire interest in the Unsecured Other Loans together with the accrued interest of HK\$2.3 million (the “Assigned Loans”) owed by the Group as at 30 June 2003 to the Immediate Holding Company on 2 July 2003. On the same day, the Immediate Holding Company granted a credit facility (the “Credit Facility”) to the Company amounting to HK\$50.0 million to surrogate the amount due from the Company as at that date, which included the Assigned Loans of a total of HK\$22.7 million, and the loan balance of HK\$20.0 million due to it as at 30 June 2003 and the accrued interest thereon of HK\$0.5 million as at that date. The Immediate Holding Company has undertaken that it will not demand the Group to repay partly or wholly of any advances made to the Group under the Credit Facility before 31 October 2004. Up to 15 August 2003, additional loan of HK\$3.0 million has been granted to the Company by the Immediate Holding Company under the Credit Facility.

Save as disclosed above, the Directors confirmed that there had been no material change in indebtedness and contingent liabilities of the Group since 30 June 2003.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 30 June 2003.

7. WORKING CAPITAL

Subject to the completion of the Open Offer, the Group will raise net proceeds of approximately HK\$49.7 million. In addition, Huang Worldwide Holding Limited (“Huang Worldwide”), an intermediate holding company of the Company, has undertaken to the Company to provide continuing financial support to the Group so as to enable the Group to continue its day-to-day operation as a viable concern notwithstanding any present or future financial difficulties experienced by the Group up to 31 October 2004. At present, the Group has undertaken a number of other measures in order to further relieve its current liquidity pressure.

The Group has obtained written consent from one of the Group’s Mainland China bankers to reschedule and extend the repayment period, subject to a repayment of the principal amount of approximately HK\$0.8 million and the settlement of interest payable of HK\$0.7 million by the Group, of its bank borrowings as at 31 March 2003 of approximately HK\$23.5 million for another one year upon their original maturity in the second half of 2003.

The Immediate Holding Company granted a credit facility (the “Credit Facility”) to the Company amounting to HK\$50 million of which HK\$46.2 million was utilised as at 15 August 2003. The Immediate Holding Company has undertaken that it will not demand the Group to repay partly or wholly of any advance made to the Group under the Credit Facility before 31 October 2004.

Hung Cheong Toys International Limited (“HCT”), a wholly-owned subsidiary of the Company, had a deficiency in assets of approximately HK\$94.2 million as at 31 March 2003 and remained dormant since June 2001. As at 31 March 2003, HCT had total liabilities of approximately HK\$94.2 million which comprised intra group liabilities of approximately HK\$83.0 million, other liabilities of HK\$1.5 million guaranteed by the Company and unsecured liabilities of approximately HK\$9.7 million. Having considered the legal counsels’ advice, the Directors had withdrawn all the Company’s financial support provided to HCT and intend to dispose of the entire interest in HCT held by the Company in order to improve the Group’s current liquidity which is in the interest of the Shareholders. In this regard, the Group has no intention to settle the unsecured liabilities of HCT amounted to approximately HK\$9.7 million.

The Company and the Subscribers entered into the Subscription Agreement in respect of the issue of the New Shares in settlement of all outstanding balances of HK\$2.0 million owed to the Subscribers.

The Directors are of the opinion that, in the absence of unforeseen circumstances and subject to the completion of the Open Offer; the ability of Huang Worldwide to provide continuing financial support to the Group; the successful rescheduling and extension of the repayment period for the Group’s borrowings owned to one of its bankers in Mainland China to after 30 September 2004; the intention of the Directors in relation to the disposition of HCT of which the Company had withdrawn all its financial support and the issue of the New Shares under the Subscription in settlement of all outstanding balances owed to the Subscribers, the Group, which includes the Company and its subsidiaries other than HCT, will have sufficient working capital up to 30 September 2004. Should the Subscription, Open Offer and other measures abovementioned be unsuccessful, the Directors are of the opinion that the Group would not have adequate fund to enable it to operate as a going concern in the foreseeable future.

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. PARTICULARS OF DIRECTORS**Executive directors**

Mr. Lo Ming Chi, Charles, JP., aged 53, joined the Company as an executive director and the Chairman in December 2000. Mr. Lo is a Certified Practising Accountant of Australia and an Associate Member of the Securities Institute of Australia. Mr. Lo has over 26 years of professional and business experience in financial and investment services in Australia, Hong Kong and other Asian countries.

Mr. Yu Wai Man, aged 38, joined the Company in December 2000 as the company secretary and was appointed an executive director in April 2001. Mr. Yu is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants and has over 18 years of experience in the accounting field including 3 years in external audit and 2 years in internal audit. Mr. Yu has over 10 years of financial experience in companies listed both in Hong Kong and the United Kingdom.

Mr. Wilson Ng, aged 31, joined the Company as an executive director in September 2002. Mr. Ng graduated from Santa Clara University with a Bachelor's Degree in Chemistry and Psychology. Mr. Ng has extensive investment experience in Southeast Asia. Prior to joining the Company, Mr. Ng was primarily involved in corporate development and business investment activities. Mr. Ng is the elder brother of Mr. Ng Wee Keat.

Mr. Ng Wee Keat, aged 26, joined the Company as an executive director in April 2003. Mr. Ng graduated from Indiana University Bloomington with a Bachelor of Arts Degree in Economics. Prior to joining the Company, Mr. Ng worked in a ship management company where he was responsible for re-engineering the company's structure as well as ensuring its daily operation in a smooth and efficient way. Mr. Ng is a younger brother of Mr. Wilson Ng.

Mr. Ng Teow Leng, aged 57, joined the Company as an executive director in April 2003. Mr. Ng has over 37 years of extensive experience in international trading and marketing. Mr. Ng was a pioneer in Singapore from 1970 to 1992 for soft commodities futures in London and New York markets. Mr. Ng has also been appointed as a committee member and an arbitrator of the Statutory Board, Rubber Association of Singapore. Mr. Ng is an elder brother of Mr. Ng Eng Leng.

Executive directors (Continued)

Mr. Ng Eng Leng, aged 54, joined the Company as an executive director in April 2003. Mr. Ng is a member of the Marketing Institute of Singapore and the Singapore Institute of Directors. Mr. Ng has 32 years of working experience as a senior executive with a wide range of multi-national corporations, especially in new event launches, marketing, research and operational management. Mr. Ng is the younger brother of Mr. Ng Teow Leng.

Independent non-executive directors

Mr. Wu Wing Kit, aged 46, joined the Company as an independent non-executive director in December 2000. Mr. Wu holds a Bachelor Degree in Law from the University of Hong Kong and a Master Degree in Law from the City University of Hong Kong. Mr. Wu has been practicing as a solicitor in Hong Kong for more than 22 years. Mr. Wu is presently a partner in the law firm of Fred Kan & Co. and is a notary public in Hong Kong and a China Appointed Attesting Officer. Mr. Wu is also a director of a number of listed companies in Hong Kong.

Mr. Wong Kwok Tai, Wystan, aged 64, joined the Company as an independent non-executive director in August 2001. Mr. Wong is a fellow of Australian Society of Certified Practising Accountants and a fellow of the Hong Kong Society of Accountants and a Certified Public Accountant. Mr. Wong has more than 38 years of financial experience. Mr. Wong is the company secretary of many listed companies and also the principal of W. Wong & Co., C.P.A.

Mr. Lau Pok Lam, aged 55, joined the Company as an independent non-executive director in April 2003. Mr. Lau is a Certified Public Accountant, a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants, an associate member of the Taxation Institute of Hong Kong and a member of the Society of Chinese Accountants and Auditors. Mr. Lau has over 32 years of experience in the professional accountancy and financial fields.

Name	Address	Nationality
Lo Ming Chi, Charles	Room 1104, Block B Villa Rocha 10 Broadwood Road Happy Valley Hong Kong	Australian
Yu Wai Man	Flat G, 41st Floor, Block 2 Well On Garden Tseung Kwan O Kowloon Hong Kong	Chinese
Wilson Ng	48A Serangoon Garden Way Singapore 556060	Singaporean
Ng Wee Keat	B2-01, Jalan Indera Putera Indera Putera Court 80300 Johor Bahru Malaysia	Malaysian
Ng Teow Leng	Apt, Block 437, Ang Mo Kio Ave. 10 #19-1365 Singapore 2056	Singaporean
Ng Eng Leng	803, Upper East Coast Road Singapore 466604	Singaporean
Wu Wing Kit	Flat 1512, 15th Floor Block B, Kornhill Hong Kong	British
Wong Kwok Tai, Wytan	Flat F, 9th Floor Greenview Garden 125 Robinson Road Hong Kong	Chinese
Lau Pok Lam	Flat 19-E Golden Maple Court 9-10 Kai Yuen Terrace North Point Hong Kong	Singaporean

3. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Head office and principal place of business in Hong Kong	Room 3A03-06, 3/F. New Mandarin Plaza 14 Science Museum Road Tsim Sha Tsui East Kowloon Hong Kong
Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Financial adviser	Somerley Limited Suite 3108, One Exchange Square 8 Connaught Place Central Hong Kong
Underwriter	Kingston Securities Limited Suite 2801, 28th Floor One International Finance Centre 1 Harbour View Street Central Hong Kong
Legal advisers	<i>On Hong Kong Law</i> Richards Butler 20th Floor, Alexandra House 16-20 Chater Road Hong Kong <i>On Bermuda Law</i> Conyers, Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Auditors	Ernst & Young <i>Certified Public Accountants</i> 15/F., Hutchison House 10 Harcourt Road Central Hong Kong

Principal bankers

Standard Chartered Bank
Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

The Bank of East Asia, Limited
Shop No. B207, Basement 2
Time Square
Causeway Bay
Hong Kong

Agricultural Bank of China
No. 8 Jiangnan Road
Huangjiang Zhen
Dongguan Shi
Guangdong Province
The People's Republic of China

China Construction Bank
Huangjiang Road
Huangjiang Zhen
Dongguan Shi
Guangdong Province
The People's Republic of China

**Principal share registrar
and transfer office**

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

**Hong Kong branch share registrar
and transfer office**

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Authorised representatives

Mr. Lo Ming Chi, Charles
Mr. Yu Wai Man

Company Secretary

Mr. Yu Wai Man, A.H.K.S.A., F.C.C.A.

4. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors in the equity and debt securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director is deemed or taken to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO to be entered into the register maintained by the Company or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

Name of director	Personal interests	Number of Shares held			Other interests
		Family interests	Corporate interests		
Mr. Wilson Ng	–	–	–	156,419,190	
Mr. Ng Kee Weat	–	–	–	156,419,190	(Note)

Note: These Shares are held by Vision Century. Vision Century is ultimately owned by a discretionary trust, the beneficiaries under the discretionary trust include Mr. Wilson Ng and Mr. Ng Kee Weat.

Save as disclosed in this prospectus, as at the Latest Practicable Date, no Directors had interests or short positions in the equity or debt securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which any such Director is deemed or taken to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following persons have an interest or a short position in Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of substantial shareholders	Number of Shares held	Percentage of
		the Company's issued share capital
Huang Group (BVI) Limited*	156,414,190	73
Huang Worldwide Holding Limited*	156,419,190	73
Vision Century*	156,419,190	73

* Vision Century is a wholly-owned subsidiary of Huang Worldwide Holding Limited. Huang Worldwide Holding Limited is a wholly-owned subsidiary of Huang Group (BVI) Limited which is in turn wholly-owned by a discretionary trust.

6. EXPERT

Ernst and Young (Certified Public Accountants) has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its opinion as set out in this prospectus and reference to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, Ernst and Young, was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. LITIGATION

The following are particulars of litigation or arbitration of material importance in which the Company or any of its subsidiaries are engaged and litigation or claims of material importance which are pending or threatened by or against the Company or any of its subsidiaries:

- (i) Claims for outstanding trade debts were brought by several suppliers against Hung Cheong Toys International Limited in respect of goods supplied and services provided for, together with interest, costs and/or other relief, of approximately HK\$2,465,000 in aggregate. The Group subsequently filed defences and no further action has been taken by the suppliers.
- (ii) Writs of summons had been issued by other miscellaneous creditors, together with claims for interest thereon, in respect of purchases of goods and provision of services, aggregating approximately HK\$1,095,000.

Save as disclosed in this prospectus, neither the Company nor any of its subsidiaries is engaged in litigation or arbitration of material importance and so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

The following contracts have been entered into by the Company and its subsidiaries (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus and are or may be material:

- the subscription agreement dated 1 February 2002 entered into between the Company and Vision Century relating to the subscription of an equivalent of 60,000,000 Shares at HK\$0.50 each.
- the agreement dated 1 February 2002 entered into between the Group, Vision Century and certain bank creditors, among others, relating to the restructuring of the bank debts.
- an underwriting agreement dated 1 February 2002 between the Company and Vision Century relating to an open offer.

- a settlement agreement dated 27 March 2002 entered into between Dongguan Shi Huangjiang Zhen Hung Cheong Toys Factory and Dongguan Shi Huangjiang Zhan Importing Company.
- an aggregate of 30 share settlement agreements all dated 27 March 2002 entered into between certain creditors of the Group and Dongguan Shi Huangjiang Zhen Hung Cheong Toys Factory in respect of settlement of its debts.
- a total of 10 share settlement agreements all dated 25 September 2002 entered into between certain creditors of the Group and Dongguan Shi Huangjiang Zhen Hung Cheong Toys Factory and H&C International Toys Limited.
- a credit facility in the amount of HK\$50,000,000 dated 2 July 2003 granted by Vision Century in favour of the Company.
- the underwriting agreement dated 15 July 2003 entered into between the Company, Vision Century and the Underwriter in relation to the Open Offer.
- the subscription agreement dated 28 July 2003 entered between the Company, Mr. Lo Ming Chi, Charles and Mr. Yu Wai Man relating to the Subscription.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the Group within the two years preceding the date of this prospectus.

9. LEGAL EFFECT

This prospectus and the enclosed Application Forms, and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance of the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Section 44A and 44B of the Companies Ordinance of Hong Kong, so far as applicable.

10. EXPENSES

The expenses in connection with the Open Offer, including the financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting charges are estimated to amount to approximately HK\$2.0 million and will be payable by the Company.

11. DOCUMENTS REGISTERED BY THE REGISTRARS OF COMPANIES

A copy of this prospectus, the Application Form and the written consent given by Ernst and Young as referred to in this appendix, have been registered with the Registrar of Companies in Hong Kong. A copy of this prospectus and the Application Form have been filed with the Registrar of Companies in Bermuda.

12. MISCELLANEOUS

- (a) None of the Directors has any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).
- (b) Save as disclosed in this prospectus, there is no contract or arrangement entered into by any member of the Group subsisting at the date thereof in which any Director is materially interested and which is significant in relation to the business of the Group.
- (c) Save as disclosed in this prospectus, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31 March 2003, the date to which the latest published audited financial statements of the Group were made up.
- (d) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (e) The secretary of the Company is Mr. Yu Wai Man, A.H.K.S.A., F.C.C.A.
- (f) The English texts of this prospectus and the accompanying Application Form shall prevail over their respective Chinese texts.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the head office of the Company at Room 3A03-06, 3/F., New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong from the date of this prospectus up to and including 18 September 2003:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2002 and 2003;
- (c) the circular of the Company dated 18 August 2003 in relation to the Open Offer and the Subscription;
- (d) the audit opinion of Ernst & Young for the audited financial statements of the Company for the year ended 31 March 2003;
- (e) the written consent referred to in the paragraph headed “Expert” in this appendix; and
- (f) all material contracts referred to in the paragraph headed “Material Contracts” in this appendix.