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ANNUAL REPORT

年報

1999

FRONTEER INTERNATIONAL HOLDINGS LIMITED

(恒逸國際集團有限公司)

(Incorporated in Bermuda with limited liability)
(於百慕大註冊成立之有限公司)



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CORPORATE INFORMATION



BOARD OF DIRECTORS

Chan Heng Fai (*Chairman and Managing Director*)
Chan Yoke Keow
Chan Sook Jin, Mary-ann
Lau Man Tak
Fong Kwok Jen
Wooldridge Mark Dean
Chan Tong Wan
Lee Ka Leung, Daniel
Wong Dor Luk, Peter
Da Roza Joao Paulo

COMPANY SECRETARY

Chan Suk King, Zoe

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

326 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKER

Hang Seng Bank Limited

SOLICITORS

Hong Kong
Bermuda

Herbert Smith
Conyers, Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong



CHAIRMAN'S STATEMENT



On behalf of the Board, I present to you the annual report of the Group for the year ended March 31, 1999. The Group's turnover decreased by 79% to HK\$15,517,000 and the Group has recorded a loss of HK\$29,886,000, representing a drop of 64% over the year ended March 31, 1998.

REVIEW OF OPERATION AND OUTLOOK

For the financial year under review, the Group was not spared from the severe economic downturn in Hong Kong which had adversely affected the Group's fashion retail business, rental income from local property operations, and securities investment portfolios. With drastic cost reductions and streamlining of operations, the Group managed to reduce the impact which would have otherwise caused more serious damage to the results. As a result, loss attributable to shareholders has dropped.

For the year ended March 31, 1999, the Group reported an operating loss from continuing operations excluding exceptional item and before taxation of HK\$25,752,000, a decrease of 67% from HK\$78,921,000 incurred in 1998. During the year ended March 31, 1999, the Group recorded an exceptional loss of HK\$4,134,000 which was brought about by the provision for loss upon commencement of liquidation of subsidiaries. Our gross profit margin declined due to the need for extended sale periods and price reductions in order to promote the business. Losses attributable to shareholders dropped significantly by 64% from HK\$84,137,000 incurred in 1998 to HK\$29,886,000 in 1999.

The business environment for retailers was extremely difficult in view of the full-scale recession that confronted Hong Kong. With a high unemployment rate that has not been seen for many years, consumer spending and confidence retreated significantly.

RESTRUCTURING

During the year ended March 31, 1999, the Company has gone through a capital restructuring, which involved a reduction of the Company's issued share capital by HK\$0.09 per share from HK\$0.10 per share to HK\$0.01 per share and a sub-division of each of the shares of HK\$0.10 each in the Company's authorised but unissued share capital into 10 shares of HK\$0.01 each (the "Reduction and Sub-division"). Save for the related expenses of the Reduction and Sub-division, implementation of the Reduction and Sub-division did not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the interests of the shareholders.



CHAIRMAN'S STATMENT



RESTRUCTURING (Continued)

As part of the restructuring, the Company has also allotted and issued 50,000,000 new shares and 68,500,000 preference shares to Heng Fung Holdings Company Limited ("Heng Fung") (the "Subscription") in full settlement of the loan of HK\$75,000,000 owing by the Company to Heng Fung as at February 23, 1999. Prior to the restructuring, Heng Fung is the single largest shareholder of the Company and hold approximately 41% of the issued share capital of the Company. The Subscription will result in an increase of its shareholding in the Company to approximately 56%. The Board considers that it is more appropriate for the Company's balance sheet to be strengthened by new permanent capital rather than being reliant on temporary loans.

FINANCIAL ACTIVITIES

During the year under review, the Company has through private placements of new shares raised approximately HK\$2,600,000 and has applied as general working capital of the Company.

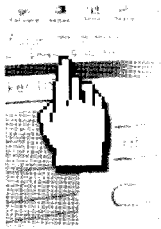
OUTLOOK

In view of the depressed retail market, the Group's plan is to focus within the current year on marketing fashion through factory outlet and on-line using web site trading. The rapid growth of E-commerce has created numerous opportunities for many businesses. Today, the Internet has eliminated geographical boundaries to provide a medium for consumers worldwide to access and purchase a wide range of products quickly and easily with a click of a mouse. The Group has therefore, started to explore innovative marketing through the use of "E-commerce". We believe that this will enhance the Company's profile in the international market. **www.instantstyle.com** is the Company's first "virtual store" and this will enable the Company to enlarge its customer base. Unlike having a traditional shop, this virtual shop will allow customers who cannot go to our actual shops – a chance to browse through our merchandise and shop. The site also provides the existing customers a chance to preview the collections that are available.

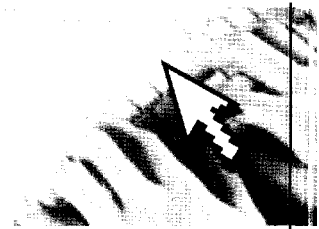
YEAR 2000 COMPLIANCE

The Group defines "Year 2000 compliance" as the performance and functionality of its business and operating system not being affected by dates prior to, during and after the year 2000.

In view of the importance of the Year 2000 compliance, a thorough review of the Group's computer hardware and software was conducted and certain computer's hardware and software which would be affected by the Year 2000 Issue were identified. Modification, upgrading or replacement of those non-Year 2000 compliant hardware and software (the "Compliance Programme") were completed in the middle of 1999.



CHAIRMAN'S STATMENT



YEAR 2000 COMPLIANCE (Continued)

While it is not expected that the business and operation of the Group will be disrupted by the Year 2000 problem, the Group will continue to monitor its computer systems and operational procedures to take account of any specific Year 2000 issue.

The total cost of the Compliance Programme was insignificant and had been charged to the profit and loss account for the year ended March 31, 1999. The Group did not have any significant commitments in respect of the Year 2000 modification costs as at March 31, 1999.

PROPOSED CHANGE OF NAME

To reflect the addition of the element of "E-commerce", the Directors have also proposed to change the name of the Company to eBiz.hk.com Limited. A special resolution to approve the change of name will be proposed at the Annual General Meeting of the Company proposed to be held on or around September 27, 1999.

APPRECIATION

I would like to take this opportunity to offer my sincere thanks to all the staff working for the Group.

On behalf of the Board

Chan Heng Fai

Chairman and Managing Director

Hong Kong, August 27, 1999



DIRECTORS AND SENIOR MANAGEMENT PROFILE



DIRECTORS

Executive Directors

Mr. Chan Heng Fai, aged 55, is the Chairman of the Company and is responsible for the Group's overall corporate policy. His experience and expertise are in the finance and banking sectors. Mr. Chan has been a director of Heng Fung since 1992. Prior to that, Mr. Chan was a director of a financial institution in the United States and several listed companies engaged in investment banking activities and property development in North America. Mr. Chan joined the Group in September 1997 and is the spouse of Ms. Chan Yoke Keow.

Ms. Chan Yoke Keow, aged 51. Ms. Chan was appointed as a director of Heng Fung in 1992 and is responsible for general administration and strategic planning for the Heng Fung Group. Ms. Chan has over 10 years' experience in financial management and administration and is responsible for the financial management of the Group. Ms. Chan joined the Group in September 1997 and is the spouse of Mr. Chan Heng Fai.

Ms. Chan Sook Jin, Mary-ann, aged 28. Ms. Chan is the daughter of Mr. Chan Heng Fai and Ms. Chan Yoke Keow and was a relationship manager with one of the leading banks in Hong Kong prior joining the Group in September 1997. Ms. Chan is responsible for the retail operations and the development of Internet marketing of the Group.

Mr. Lau Man Tak, aged 30. He graduated from the Hong Kong Polytechnic University with a Bachelor's Degree in Accountancy and worked with an international accounting firm for over 3 years before joining Heng Fung in 1995 as financial controller. Mr. Lau is an associate member of the Association of Chartered Certified Accountants and Hong Kong Society of Accountants. He joined the Group in September 1997 and is responsible for the accounting and cashflow management of the Group.

Non-executive Directors

Mr. Fong Kwok Jen, aged 50, is a solicitor practising in Singapore. Mr. Fong is also a non-executive director of Heng Fung and was appointed as a non-executive director in September 1997.

Mr. Wooldridge Mark Dean, aged 32. He is currently a project manager of one of the leading banks in Hong Kong and is responsible for overall project management of computer system implementation. Mr. Wooldridge was appointed as a non-executive director in September 1997 and is the spouse of Ms. Chan Sook Jin, Mary-ann.



DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS (Continued)

Non-executive Directors (Continued)

Mr. Chan Tong Wan, Tony, aged 25, is a director of a company listed in NASDAQ. Mr. Chan has experience in investment banking field. Prior to that, Mr. Chan has worked in 2 international company as investment banker and specialised in Asian equity financial products. Mr. Chan joined the Group as a non-executive director in August 1999 and is the son of Mr. Chan Heng Fai and Ms. Chan Yoke Keow.

Independent Non-executive Directors

Mr. Lee Ka Leung, Daniel, aged 41. Mr. Lee is a certified public accountant and is admitted to practise in Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and also a member of a committee of the Hong Kong Society of Accountants. Mr. Lee is also currently the managing partner of K.L.Lee & Partners C.P.A. Limited, and is an independent non-executive director of Heng Fung. Mr. Lee was appointed as an independent non-executive director in September 1997.

Mr. Wong Dor Luk, Peter, aged 56. Mr. Wong has over 30 years' experience in the fashion industry including distribution, sourcing, overseeing manufacturing and exporting to international clients in France, the United Kingdom, Germany and the US. Mr. Wong was appointed as an independent non-executive director in September 1997.

Mr. Da Roza Joao Paulo, aged 48, is the personnel officer of an airport services company in Hong Kong. Mr. Da Roza has experience in China trade and real estates industry and was appointed as an independent non-executive director in August 1999.

SENIOR MANAGEMENT

Wong Pui Man, aged 31, is the retail manager. She joined the Group in October 1996 and is responsible for the retail management of the Group's InWear and Matinique brand. She holds a Master's Degree in Business Administration from University of Keele in United Kingdom. She has over 9 years' experience of retail management.



NOTICE OF ANNUAL GENERAL MEETING



NOTICE IS HEREBY GIVEN that the **ANNUAL GENERAL MEETING** of Fronteer International Holdings Limited (the "Company") will be held at Pearl Rooms 1-3, 3rd Floor, Furama Hotel Hong Kong, 1 Connaught Road Central, Hong Kong, on Monday, September 27, 1999 at 3:30 p.m. for the following purposes:-

1. To receive and consider the audited financial statements, and the reports of the directors and of the auditors for the year ended March 31, 1999;
2. To re-elect retiring directors and to authorise the board of directors to fix their remuneration;
3. To re-appoint the auditors of the Company and to authorise the board of directors to fix their remuneration;

As special business, to consider and if thought fit, pass, with or without amendments, the following resolutions as ordinary resolutions:-

4. **"THAT:-**

- (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional ordinary shares in the capital of the Company, and to make or grant offers, agreements or options (including warrants, bonds, debentures or securities convertible into ordinary shares of the Company) which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements or options (including warrants, bonds, debentures or securities convertible into ordinary shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) the exercise of any option(s) granted under any share option scheme or similar arrangement adopted by the Company for the grant or issue to employees of the Company and/or any of its subsidiaries of shares of the Company, or rights to acquire shares of the Company or (ii) any scrip dividend or similar arrangement providing for the issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company in accordance with the Company's bye-laws from time to time; or (iii) a Rights Issue (as hereinafter defined); or (iv) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and



NOTICE OF ANNUAL GENERAL MEETING



(d) for the purposes of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the bye-laws of the Company to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company).”

5. **“THAT:—**

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase ordinary shares in the capital of the Company or securities convertible into ordinary shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose (“recognised stock exchange”), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange, or of any other recognised stock exchange, as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of securities which may be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution, shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:—

- (i) the conclusion of the next annual general meeting of the Company;



NOTICE OF ANNUAL GENERAL MEETING



(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the bye-laws of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

6. **"THAT**, subject to the passing of ordinary resolutions numbered 4 and 5 set out in the notice of the Company ("Notice") convening the annual general meeting of the Company to be held on September 27, 1999 of which this Resolution forms part, the general mandate granted to the directors of the Company ("Directors") and for the time being in force to exercise the powers of the Company to allot shares pursuant to ordinary resolution numbered 4 set out in the Notice, be and is hereby extended by the addition to the aggregate nominal amount of share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of shares in the capital of the Company purchased by the Company under the authority granted to the Directors pursuant to ordinary resolution numbered 5 (the "Mandate") set out in the Notice provided that the aggregate nominal amount of shares purchased by the Company pursuant to the Mandate shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution."

7. As special business to consider and, if thought fit, pass, with or without amendments the following resolution as a special resolution:-

"THAT, subject to the approval of the Registrar of Companies of Bermuda, the name of the Company be changed to eBiz.hk.com Limited."

By Order of the Board
Chan Suk King, Zoe
Company Secretary

Hong Kong, August 27, 1999

Principal place of business in Hong Kong:

326 Kwun Tong Road
Kwun Tong
Hong Kong

Notes:

1. A member of the company entitled to attend and vote at the above Meeting may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the principal office of the Company in Hong Kong in any event not less than 48 hours before the time appointed for holding the Meeting or any adjourned meeting. Completion and return of a form of proxy will not preclude you from attending and voting in person if you are subsequently able to be present.
3. In connection with Resolution No. 5 above, the attention of shareholders is drawn to the Explanatory Statement to be sent to shareholders of the Company containing a summary of the more important provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") relating to the repurchase of shares on the Stock Exchange.



DIRECTORS' REPORT



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended March 31, 1999.

CHANGE OF NAME

Pursuant to a special resolution passed on September 25, 1998, the name of the Company was changed from Iwai's International Holdings Limited 岩井國際控股有限公司 to Fronteer International Holdings Limited 恒進國際集團有限公司.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investment.

SEGMENT INFORMATION

The Group's turnover and contribution to operating loss for the year ended March 31, 1999, analysed by principal activity, are as follows:

	Turnover	Contribution to operating loss excluding exceptional item	Exceptional item	Contribution to operating loss from ordinary activities before taxation
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Retailing of fashion apparel and accessories	13,253	(8,703)	(4,134)	(12,837)
Property investment	208	(1,550)	--	(1,550)
Financial and securities investment	2,056	(3,419)	--	(3,419)
	<u>15,517</u>	<u>(13,672)</u>	<u>(4,134)</u>	<u>(17,806)</u>
Corporate expenses				(3,768)
Interest expenses				(8,312)
Loss from ordinary activities before taxation				<u>(29,886)</u>

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and operating loss are derived from Hong Kong.



DIRECTORS' REPORT



SUBSIDIARIES

Details of the Company's subsidiaries at March 31, 1999 are set out in note 14 to the financial statements.

RESULTS

The results of the Group for the year ended March 31, 1999 are set out in the consolidated profit and loss account on page 20.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 21 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 51.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 1999 are set out on page 52 of the annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 19 to the financial statements.



DIRECTORS' REPORT



DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Chan Heng Fai
Chan Yoke Keow
Chan Sook Jin, Mary-ann
Lau Man Tak

Non-executive directors:

Fong Kwok Jen
Wooldridge Mark Dean
Chan Tong Wan *(appointed on August 1, 1999)*

Independent non-executive directors:

Lee Ka Leung, Daniel
Wong Dor Luk, Peter
Da Roza Joao Paulo *(appointed on August 1, 1999)*

In accordance with Clause 87 of the Company's Bye-laws, Chan Yoke Keow and Lee Ka Leung, Daniel will retire and, being eligible, offer themselves for re-election.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the above clause of the Company's Bye-laws.

DIRECTORS' INTERESTS IN SHARES

None of the directors or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance").

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

The Company's ultimate holding company, Heng Fung Holdings Company Limited ("HFHCL"), has a share option scheme which enables its directors to grant options to subscribe for shares in HFHCL to executive directors and employees of HFHCL and its subsidiaries ("Heng Fung Scheme").



DIRECTORS' REPORT



ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES (Continued)

The share options granted under Heng Fung Scheme to certain directors of the Company are as follows:

Name of director	Date of grant	Exercise price HK\$	Exercisable period	Number of share options as at April 1, 1998 and March 31, 1999
Chan Heng Fai	April 22, 1996	0.4025	April 22, 1996 to April 21, 2006	1,000,000
	May 15, 1997	0.4512	May 15, 1997 to May 14, 2007	6,660,000
	October 26, 1997	0.3064	October 26, 1997 to October 25, 2007	14,400,000
Chan Yoke Keow	April 22, 1996	0.4025	April 22, 1996 to April 21, 2006	2,071,739
	May 15, 1997	0.4512	May 15, 1997 to May 14, 2007	6,660,000
	October 26, 1997	0.3064	October 26, 1997 to October 25, 2007	14,400,000
Chan Sook Jin, Mary-ann	October 26, 1997	0.3064	October 26, 1997 to October 25, 2007	25,000,000

None of the above share options has been exercised during the year.

In addition, the Company has a share option scheme which enables the Directors to grant options to subscribe for shares in the Company to eligible employees, including executive directors, of the Company and its subsidiaries (the "Scheme"). Details of the Scheme are set out in note 20 to the financial statements.



DIRECTORS' REPORT



ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES (Continued)

The share options granted under this scheme to certain directors of the Company are as follows:

Name of director	Date of grant	Exercise price HK\$	Exercise period	Number of share options as at April 1, 1998 and March 31, 1999
Chan Heng Fai	February 10, 1998	0.11	February 10, 1998 to February 9, 2009	3,136,000
Chan Yoke Keow	February 10, 1998	0.11	February 10, 1998 to February 9, 2009	3,136,000
Chan Sook Jin, Mary-ann	February 10, 1998	0.11	February 10, 1998 to February 9, 2009	1,500,000
Lau Man Tak	February 10, 1998	0.11	February 10, 1998 to February 9, 2009	1,500,000

None of the above share options has been exercised during the year.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or Chief Executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors or the Chief Executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or its ultimate holding company or fellow subsidiaries or had exercised any such rights during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries or its ultimate holding company or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



DIRECTORS' REPORT



SUBSTANTIAL SHAREHOLDERS

As at March 31, 1999, the following details were recorded in the register maintained by the Company under Section 16(1) of the SDI Ordinance:

Name	Direct interest	Deemed interest
Sure World Capital Limited (<i>Note</i>)	101,557,700 ordinary shares	–
	68,500,000 non-ranking cumulative preference shares	
Rasa Sayang Limited (<i>Note</i>)	7,106,000 ordinary shares	–
Heng Fung Capital Company Limited (<i>Note</i>)	3,388,000 ordinary shares	–
HFHCL	–	112,051,700 ordinary shares 68,500,000 non-ranking cumulative preference shares
Greenyield Limited	27,150,000 ordinary shares	–

Note: These companies are wholly owned subsidiaries of HFHCL.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at March 31, 1999.



DIRECTORS' REPORT



MAJOR CUSTOMERS AND SUPPLIERS

For the year ended March 31, 1999, the percentage of the Group's purchases attributable to the largest supplier was 92% and the Group has only two suppliers. The percentage of the Group's turnover attributable to the five largest customers represented less than 30% of the Group's total turnover. None of the directors, their associates or any shareholder who, to the knowledge of the directors, owned more than 5% of the Company's share capital had an interest in any of the Group's suppliers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended March 31, 1999 with those paragraphs of the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with which it is required to report compliance. On December 16, 1998, the Company established an Audit Committee comprised Messrs. Fong Kwok Jen, Lee Ka Leung, Daniel and Wong Dor Luk, Peter.

In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society Accountants in December 1997.

YEAR 2000 ISSUES

The Group defines "Year 2000 compliance" as the performance and functionality of its business and operating system not being affected by dates prior to, during and after the year 2000.

In view of the importance of the Year 2000 compliance, a thorough review of the Group's computer hardware and software was conducted and certain computer's hardware and software which would be affected by the Year 2000 Issue were identified. Modification, upgrading or replacement of those non-Year 2000 compliant hardware and software (the "Compliance Programme") were completed in the middle of 1999.



DIRECTORS' REPORT



YEAR 2000 ISSUES (Continued)

While it is not expected that the business and operation of the Group will be disrupted by the Year 2000 problem, the Group will continue to monitor its computer systems and operational procedures to take account of any specific Year 2000 Issue.

The total cost of the Compliance Programme was insignificant and had been charged to the profit and loss account for the year ended March 31, 1999. The Group did not have any significant commitments in respect of the Year 2000 modification costs as at March 31, 1999.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint, Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chan Heng Fai

Chairman and Managing Director

Hong Kong, August 27, 1999

AUDITORS' REPORT

**Deloitte Touche
Tohmatsu**



Certified Public Accountants

26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

德勤·關黃陳方會計師行

香港中環干諾道中 111 號
永安中心 26 樓

To THE MEMBERS OF FRONTEER INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS IWAI'S INTERNATIONAL HOLDINGS LIMITED)
(*incorporated in Bermuda with limited liability*)

We have audited the financial statements on pages 20 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company 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 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 1999 and of the loss 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, August 27, 1999



CONSOLIDATED PROFIT AND LOSS ACCOUNT



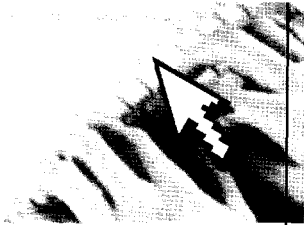
for the year ended March 31, 1999

	Notes	1999 \$'000	1998 \$'000
TURNOVER	5	<u>15,517</u>	<u>73,251</u>
OPERATING LOSS			
Continuing operations excluding exceptional item	6	(25,752)	(78,921)
Exceptional item	7	<u>(4,134)</u>	<u>(5,216)</u>
LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION		(29,886)	(84,137)
TAXATION	10	<u>-</u>	<u>-</u>
LOSS FOR THE YEAR		<u>(29,886)</u>	<u>(84,137)</u>
LOSS PER SHARE	12	<u>(20.96) cents</u>	<u>(67.04) cents</u>



CONSOLIDATED BALANCE SHEET

at March 31, 1999



	Notes	1999 \$'000	1998 \$'000
FIXED ASSETS	13	20,994	28,662
NET CURRENT ASSETS (LIABILITIES)	15	2,451	(51,924)
NET ASSETS (LIABILITIES)		<u>23,445</u>	<u>(23,262)</u>
Financed (represented) by:			
SHARE CAPITAL	19	70,506	12,550
RESERVES	21	(47,061)	(35,812)
BALANCE (DEFICIENCY) OF SHAREHOLDERS' FUNDS		<u>23,445</u>	<u>(23,262)</u>

The financial statements on pages 20 to 50 were approved by the Board of Directors on August 27, 1999 and are signed on its behalf by:

CHAN HENG FAI
DIRECTOR

LAU MAN TAK
DIRECTOR

BALANCE SHEET

at March 31, 1999

	Notes	1999 \$'000	1998 \$'000
INTERESTS IN SUBSIDIARIES	14	24,562	40,761
NET CURRENT ASSETS (LIABILITIES)	15	900	(63,510)
		25,462	(22,749)
Financed (represented) by:			
SHARE CAPITAL	19	70,506	12,550
RESERVES	21	(47,228)	(35,812)
BALANCE (DEFICIENCY) OF SHAREHOLDERS' FUNDS		23,278	(23,262)
AMOUNTS DUE TO SUBSIDIARIES		2,184	513
		25,462	(22,749)

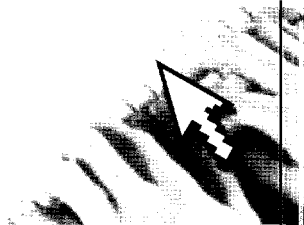
CHAN HENG FAI
DIRECTOR

LAU MAN TAK
DIRECTOR



CONSOLIDATED CASH FLOW STATEMENT

for the year ended March 31, 1999



	Notes	1999 \$'000	1998 \$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	<u>(7,051)</u>	<u>(37,837)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Finance lease charges paid		–	(433)
Interest paid		(4,054)	(3,309)
Interest received		415	213
Dividend income received		<u>39</u>	<u>–</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(3,600)</u>	<u>(3,529)</u>
TAXATION			
Hong Kong Profits Tax paid		–	(836)
Hong Kong Profits Tax refunded		<u>2,431</u>	<u>1,078</u>
NET TAX REFUNDED		<u>2,431</u>	<u>242</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		(184)	(5,549)
Proceeds from disposals of fixed assets		72	91
Increase in pledged bank deposits		(662)	(1,426)
Bank balances and cash deconsolidated upon commencement of liquidation of subsidiaries	24	<u>(771)</u>	<u>–</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(1,545)</u>	<u>(6,884)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(9,765)</u>	<u>(48,008)</u>



CONSOLIDATED CASH FLOW STATEMENT



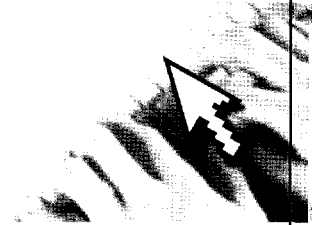
for the year ended March 31, 1999

	Notes	1999 \$'000	1998 \$'000
FINANCING	25		
Advance from a related company		8,117	93,393
Repayment of advance from a related company		—	(32,196)
Repayment of obligations under finance leases		—	(5,078)
Proceeds from share issue		2,761	—
Share issue expenses		(25)	—
New trust receipt loan raised		273	—
		<u>11,126</u>	<u>56,119</u>
NET CASH INFLOW FROM FINANCING		<u>11,126</u>	<u>56,119</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>1,361</u>	<u>8,111</u>
CASH AND CASH EQUIVALENTS AT APRIL 1		<u>2,099</u>	<u>(6,012)</u>
CASH AND CASH EQUIVALENTS AT MARCH 31		<u><u>3,460</u></u>	<u><u>2,099</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		<u><u>3,460</u></u>	<u><u>2,099</u></u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Heng Fung Holdings Company Limited ("HFHCL"), another public company incorporated in Hong Kong with its shares listed on the Stock Exchange.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

On March, 31, 1999, Heng Fung Holdings Company Limited became the ultimate holding company of the Group and has given an undertaking to make available to the Company by way of loan facilities the necessary ongoing funding for the Company's general working capital purposes for a maximum amount of HK\$50,000,000. In view of the continuing financial support provided by the ultimate holding company, the directors believe that the Company has sufficient working capital and will be able to meet its financial obligations as they fall due. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants.

SSAP 5 (Revised)	Earnings Per Share
SSAP 20	Related Party Disclosures
SSAP 22	Inventories

The adoption of SSAP 5 (Revised) has no impact on the basis of calculation of earnings per share amounts and the disclosures presented for earnings per share (see note 12).

SSAP 20 requires the disclosure of details of transactions with specified related parties (see note 18).

SSAP 22 specifies the accounting treatment to be adopted for inventories. The adoption of this standard has resulted in some changes in terminology and presentation, but does not have any effect on the loss for the current or prior accounting periods. Accordingly, *no prior period adjustment has been required.*



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Turnover

Turnover represents the amounts received and receivable for goods sold, income from financial and securities investment, and property rental income during the year.

Revenue recognition

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

Rental income under operating leases is recognised on a straight line basis over the terms of the relevant leases.

Sales proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

Profit and loss on equity swap transactions is recognised by reference to market value of the underlying equity at the balance sheet date or expiration date of contracts.

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for permanent diminution in value.

Fixed assets and depreciation

Fixed assets other than investment properties are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are 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 the fixed asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the profit and loss account to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the profit and loss account to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of fixed assets other than investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the terms of the leases
Buildings	Over the shorter of the terms of the leases or 50 years
Furniture and fixtures	15% – 50%
Motor vehicles	25%
Motor vessel	15%

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

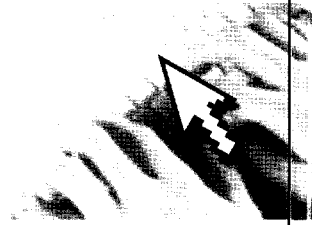
On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the profit and loss account.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories represent goods held for resale and are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries which are denominated in currencies other than the Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

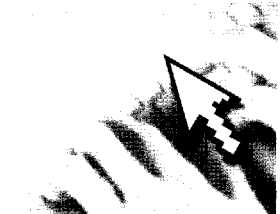
Investments

Listed investments held for short-term trading purposes are stated at the lower of cost and market value, calculated on an individual investment basis at the balance sheet date.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

5. TURNOVER

	1999 HK\$'000	1998 HK\$'000
Turnover comprises:		
Sales of goods	13,253	71,828
Financial and securities investment	2,056	1,285
Property rental income	208	138
	<u>15,517</u>	<u>73,251</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

6. OPERATING LOSS FROM CONTINUING OPERATIONS EXCLUDING EXCEPTIONAL ITEM

	1999 HK\$'000	1998 HK\$'000
Operating loss from continuing operations excluding exceptional item has been arrived at after charging:		
Auditors' remuneration	300	421
Depreciation		
Owned assets	3,358	8,604
Assets held under finance leases	-	1,822
Finance lease charges	-	433
Interest on bank borrowings wholly repayable within five years	915	892
Interest on loan from a related company	7,397	3,012
Interest on other borrowings	-	833
	<u>8,312</u>	<u>5,170</u>
Loss on disposal of fixed assets	76	34
Operating lease rentals:		
Rented premises	6,218	30,952
Furniture and fixtures	142	113
Preliminary expenses	31	27
Provision for short-term listed investments	-	14,733
and after crediting:		
Interest income	415	213
Dividend income from listed investments	39	-
Exchange gain	-	1,234
Rental income	<u>208</u>	<u>138</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

7. EXCEPTIONAL ITEM

	1999 HK\$'000	1998 HK\$'000
Fixed assets written off in respect of closure of shops	–	5,216
Provision for loss upon commencement of liquidation of subsidiaries	<u>4,134</u>	<u>–</u>
	<u><u>4,134</u></u>	<u><u>5,216</u></u>

8. DIRECTORS' EMOLUMENTS

	1999 HK\$'000	1998 HK\$'000
Directors' fees:		
Executive	–	–
Non-executive	60	60
Independent non-executive	<u>60</u>	<u>60</u>
	<u>120</u>	<u>120</u>
Other emoluments (executive directors):		
Salaries and other benefits	<u>–</u>	<u>716</u>
Total emoluments	<u><u>120</u></u>	<u><u>836</u></u>

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none (1998: two) was director of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the five (1998: remaining three) individuals were as follows:

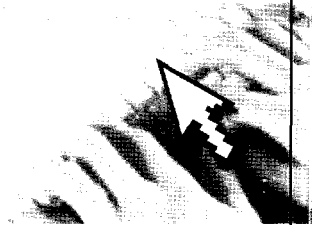
	1999 HK\$'000	1998 HK\$'000
Salaries and other benefits	<u><u>924</u></u>	<u><u>1,181</u></u>

Emoluments of the five (1998: remaining three) individuals are within the band of up to HK\$1,000,000.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



10. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as there is no assessable profit for the year.

Details of unprovided deferred taxation are set out in note 22.

11. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$29,886,000 (1998: HK\$84,137,000), a loss of approximately HK\$31,196,000 (1998: HK\$94,343,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of HK\$29,886,000 (1998: HK\$84,137,000) and on 142,553,699 (1998: 125,500,000) weighted average number of ordinary shares outstanding during the year. No diluted loss per share is calculated as the effect of potential ordinary shares is anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

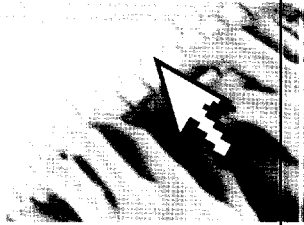
13. FIXED ASSETS

	Leasehold land and buildings HK\$'000	Investment properties HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Motor vessel HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At April 1, 1998	18,000	3,540	21,397	152	380	43,469
Additions	-	-	184	-	-	184
Disposals	-	-	(4,237)	-	(380)	(4,617)
Eliminated upon commencement of liquidation of subsidiaries	-	-	(12,980)	-	-	(12,980)
Deficit on valuation	(565)	(854)	-	-	-	(1,419)
At March 31, 1999	17,435	2,686	4,364	152	-	24,637
Comprising:						
At cost	-	-	4,364	152	-	4,516
At valuation						
- March 31, 1999	17,435	2,686	-	-	-	20,121
	17,435	2,686	4,364	152	-	24,637
DEPRECIATION						
At April 1, 1998	-	-	14,313	152	342	14,807
Provided for the year	360	-	2,988	-	10	3,358
Eliminated on disposals	-	-	(4,117)	-	(352)	(4,469)
Eliminated upon commencement of liquidation of subsidiaries	-	-	(9,693)	-	-	(9,693)
Deficit on revaluation	(360)	-	-	-	-	(360)
At March 31, 1999	-	-	3,491	152	-	3,643
NET BOOK VALUES						
At March 31, 1999	17,435	2,686	873	-	-	20,994
At March 31, 1998	18,000	3,540	7,084	-	38	28,662



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



13. FIXED ASSETS (Continued)

The leasehold land and buildings and the investment properties are held on medium term leases in Hong Kong.

The leasehold land and buildings and the investment properties of the Group were revalued at March 31, 1999 on an open market value basis by Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers. The deficits arising on revaluation of leasehold land and buildings and investment properties have been charged to the asset revaluation reserve and investment property revaluation reserve (note 21) respectively.

Investment properties of the Group having a net book value of HK\$1,543,000 are rented out under operating leases.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements on a historical cost basis at the following amounts:

	HK\$'000
Cost	12,500
Accumulated depreciation	<u>(1,625)</u>
Net book value	
At March 31, 1999	<u><u>10,875</u></u>
At March 31, 1998	<u><u>11,125</u></u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost	51,474	52,199
Less: Provision for permanent diminution in value	(51,474)	(52,199)
	—	—
Amounts due from subsidiaries	82,279	77,783
Less: Provision for amounts due from subsidiaries	(57,717)	(37,022)
	24,562	40,761
	24,562	40,761

Particulars of the subsidiaries at March 31, 1999 are as follows:

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
American Fronteer Financial International Limited	Hong Kong	Ordinary HK\$2	100	—	Investment holding
Cyber Construction HK Limited	Hong Kong	Ordinary HK\$2	—	100	Inactive
Fronteer Securities (HK) Limited	Hong Kong	Ordinary HK\$2	—	100	Financial and securities investment
Ei-Ei-O (Far East) Limited	Hong Kong	Ordinary HK\$3,000,000	—	100	Inactive

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

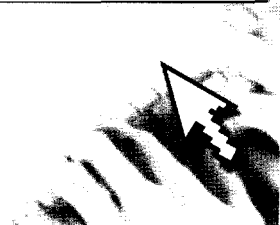
14. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Iwai Denmark Limited	Hong Kong	Ordinary HK\$10,000	–	100	Operation of fashion retail shops
Iwai Paris Limited	Hong Kong	Ordinary HK\$500,000	–	100	Operation of fashion retail shops
Iwai Style Limited	Hong Kong	Ordinary HK\$2	–	100	Inactive
Iwai Tokyo Limited	Hong Kong	Ordinary HK\$2	–	100	Inactive
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000	–	100	Investment and property holding
		Non-voting deferred shares HK\$1,000,000 (Note)	–	–	
Iwai's Investments Limited	The British Virgin Islands/ Hong Kong	Ordinary HK\$10,000	100	–	Investment holding
Masaru Iwai Enterprises (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Trading of fashion apparel and accessories
M. France H.K. Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Operation of fashion retail shops



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



14. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Rich Legend Investment Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment
York Winner Investment Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment

Note: The deferred shares, which are not held by the Group, carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

15. NET CURRENT ASSETS (LIABILITIES)

	THE GROUP		THE COMPANY	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
CURRENT ASSETS				
Inventories held of resale (<i>note 16</i>)	1,045	4,583	-	-
Debtors, deposits and prepayments	537	10,911	3	1,615
Tax recoverable	-	2,431	-	-
Short-term listed investments (<i>note 17</i>)	809	6,459	-	-
Bank balances and cash (<i>note 28</i>)	5,548	3,525	2,993	44
	7,939	27,909	2,996	1,659
CURRENT LIABILITIES				
Creditors and accrued charges	5,070	16,447	2,096	2,544
Bills payable	145	761	-	-
Trust receipt loans, secured	273	-	-	-
Amount due to a related company (<i>note 18</i>)	-	62,625	-	62,625
Taxation	-	-	-	-
	5,488	79,833	2,096	65,169
NET CURRENT ASSETS (LIABILITIES)	2,451	(51,924)	900	(63,510)

16. INVENTORIES HELD FOR RESALE

The cost of inventories recognised as an expense during the year was HK\$12,868,000 (1998: HK\$60,391,000). Included in the inventories held for resale of HK\$1,045,000 an amount of HK\$730,000 (1998: HK\$4,123,000) are carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

17. SHORT-TERM LISTED INVESTMENTS

	THE GROUP	
	1999 HK\$'000	1998 HK\$'000
Listed shares in Hong Kong, at cost	1,504	21,192
Provision for diminution in value	(695)	(14,733)
	<u>809</u>	<u>6,459</u>
Market value of listed shares	<u>824</u>	<u>6,459</u>

The cost of listed investments recognised as an expense during the year was HK\$19,753,000 (1998: HK\$1,390,000).

18. AMOUNT DUE TO A RELATED COMPANY

The amount due to a subsidiary of HFHCL (the "related company") was unsecured, bore interest at prime rate plus 3 per cent. per annum, and was used to satisfy the consideration for the shares issued on March 31, 1999 (*note 19*). During the year, the Group was charged interest of HK\$7,397,000 (1998: HK\$3,012,000) by the related company.

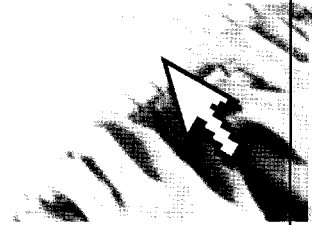
19. SHARE CAPITAL

	1999	1998
	HK\$'000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 (1998: HK\$0.10) each	90,000	90,000
Non-voting cumulative redeemable convertible preference shares of HK\$1 each	<u>68,500</u>	<u>—</u>
	<u>158,500</u>	<u>90,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 (1998: HK\$0.10) each	2,006	12,550
Non-voting cumulative redeemable convertible preference shares of HK\$1 each	<u>68,500</u>	<u>—</u>
	<u>70,506</u>	<u>12,550</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



19. SHARE CAPITAL (Continued)

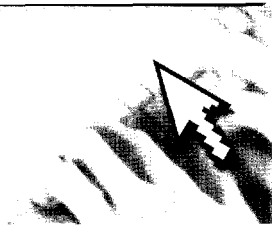
The following changes in the Company's share capital have taken place during the year:

- (a) Pursuant to the placing agreement dated July 2, 1998 entered into between the Company and Ong & Company Private Limited (the "Placing Agent"), the Placing Agent procured Mr. Ng Cheow Chye, an individual private investor residing in Singapore, to subscribe for 25,100,000 ordinary new shares of HK\$0.10 each in the capital of the Company at a price of HK\$0.11 per share which represented a discount of approximately 40.5 per cent. to the closing price of HK\$0.185 per share as quoted on the Stock Exchange on July 2, 1998. The proceeds were used as general working capital of the Group.
- (b) Pursuant to a special resolution passed at a special general meeting on March 31, 1999, the issued ordinary share capital was reduced from HK\$15,060,000 by an amount of HK\$13,554,000 to an amount of HK\$1,506,000 by cancelling paid-up capital to the extent of HK\$0.09 on each of shares of HK\$0.10 each in issue so that each issued share of HK\$0.10 is treated as one fully paid-up share of HK\$0.01.
- (c) Pursuant to an ordinary resolution passed at a special general meeting on March 31, 1999, the authorised share capital of the Company was increased from HK\$90,000,000 to HK\$158,500,000 by the creation of 68,500,000 non-voting cumulative redeemable convertible preference shares of HK\$1 each ("CP Shares").
- (d) Following the creation of the CP Shares, the authorised share capital of the Company was reclassified as 9,000,000,000 ordinary shares and 68,500,000 CP Shares.
- (e) On the same date, 50,000,000 ordinary shares and 68,500,000 CP shares were allotted and issued to HFHCL at HK\$0.13 per share and HK\$1 per share respectively. The shares were credited as fully paid in satisfaction of amount due to a subsidiary of HFHCL of HK\$75,000,000.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



19. SHARE CAPITAL (Continued)

The CP Shares shall carry equal rights and rank pari passu with one another and each CP Share shall have the rights and restrictions set out below:

- (a) Holders of the CP Shares are entitled in priority to any dividend payable in respect of the ordinary shares of the Company at cumulative annual preferential dividend rates of 3 per cent. per annum on the principal amount of the CP shares which are specified in the subscription agreement dated February 12, 1999 and two supplement agreements dated February 15, 1999 and March 9, 1999 respectively. Subject to the Companies Act of Bermuda, the dividend is payable cumulative and semi-annually in arrears on March 31 and September 30 in each year during the conversion period which falls after the second anniversary from the date of issue of the CP Shares and the first payment is due on September 30, 2001. The conversion price of the CP shares is HK\$0.13 and the maturity date of the CP shares will be March 30, 2004.
- (b) The CP Shares are convertible in multiples of 1,000,000 into the shares of the Company.
- (c) The CP Shares are also redeemable at the principal amounts on the maturity date or the earliest date permitted under the Companies Act of Bermuda, whichever is the later. The maturity date is the fifth anniversary of the issue date of the CP shares.
- (d) The CP Shares do not have any voting rights.

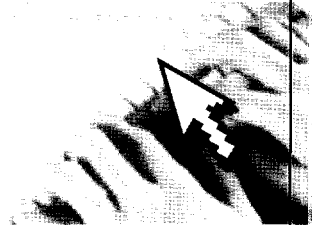
20. SHARE OPTIONS

Under the terms of the Share Option Scheme (the "Scheme") which became effective on October 2, 1995, the board of directors of the Company may offer to any director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10 per cent. of the issued share capital of the Company from time to time. The Scheme will remain in force for a period of ten years commencing October 2, 1995.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



20. SHARE OPTIONS (Continued)

A summary of the options granted is as follows:

<u>Name</u>	<u>Capacity</u>	<u>Exercise price</u>	<u>Number of option shares at April 1, 1998 and March 31, 1999</u>
		HK\$	
Chan Heng Fai	Director	0.11	3,136,000
Chan Yoke Keow	Director	0.11	3,136,000
Chan Sook Jin, Mary-ann	Director	0.11	1,500,000
Lau Man Tak	Director	0.11	1,500,000
			<hr/>
			9,272,000
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No share option has been granted or exercised during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999

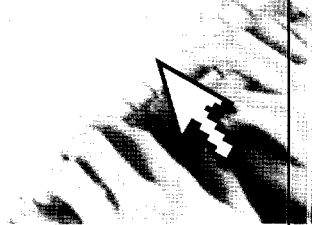
21. RESERVES

	Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP								
At April 1, 1998	7,254	1,887	15,594	84	1,602	-	(62,233)	(35,812)
Deficit on revaluation	(205)	(854)	-	-	-	-	-	(1,059)
Issue of ordinary shares	-	-	6,251	-	-	-	-	6,251
Share issue expenses	-	-	(25)	-	-	-	-	(25)
Realised upon commencement of liquidation of subsidiaries	-	-	-	(84)	-	-	-	(84)
Credit arising from capital reduction	-	-	-	-	-	-	13,554	13,554
Loss for the year	-	-	-	-	-	-	(29,886)	(29,886)
At March 31, 1999	<u>7,049</u>	<u>1,033</u>	<u>21,820</u>	<u>-</u>	<u>1,602</u>	<u>-</u>	<u>(78,565)</u>	<u>(47,061)</u>
THE COMPANY								
At April 1, 1998	-	-	15,594	-	-	48,474	(99,880)	(35,812)
Issue of ordinary shares	-	-	6,251	-	-	-	-	6,251
Share issued expenses	-	-	(25)	-	-	-	-	(25)
Credit arising from capital reduction	-	-	-	-	-	13,554	-	13,554
Transfer	-	-	-	-	-	(13,554)	13,554	-
Loss for the year	-	-	-	-	-	-	(31,196)	(31,196)
At March 31, 1999	<u>-</u>	<u>-</u>	<u>21,820</u>	<u>-</u>	<u>-</u>	<u>48,474</u>	<u>(117,522)</u>	<u>(47,228)</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



21. RESERVES (Continued)

Notes:

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at March 31, 1999, the Company has no reserve available for distribution.

22. UNPROVIDED DEFERRED TAXATION

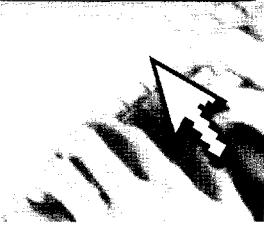
At the balance sheet date, the Group has a deferred tax asset of HK\$8,047,000 (1998: HK\$9,003,000) which has not been recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain. Details of the unprovided deferred tax asset are as follows:

	THE GROUP	
	1999	1998
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Shortfall of tax allowances over depreciation	75	75
Tax losses	7,972	8,928
	<u>8,047</u>	<u>9,003</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



22. UNPROVIDED DEFERRED TAXATION (Continued)

The amount of unprovided deferred tax (credit) charge for the year is as follows:

	THE GROUP	
	1999	1998
	HK\$'000	HK\$'000
Shortfall of tax allowances over depreciation	2	155
Tax losses (utilised) arising	(685)	6,064
Effect of change in tax rate	(273)	—
	<u>(956)</u>	<u>6,219</u>


The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

Deferred tax has not been provided on the valuation surplus arising on the valuation of land and buildings and investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



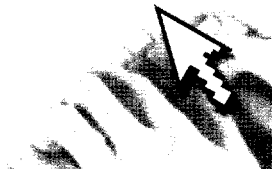
23. RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1999 HK\$'000	1998 HK\$'000
Loss from ordinary activities before taxation	(29,886)	(84,137)
Fixed assets written off in respect of closure of shops	–	5,216
Depreciation	3,358	10,426
Provision for loss upon commencement of liquidation of subsidiaries	4,134	–
Loss on disposal of fixed assets	76	34
Finance lease charges	–	433
Interest expense	8,312	4,737
Interest income	(415)	(213)
Dividend income from listed investments	(39)	–
Decrease (increase) in short-term listed investments	5,650	(6,459)
Decrease in inventories	3,538	28,864
Decrease in debtors, deposits and prepayments	7,392	8,131
(Decrease) increase in creditors and accrued charges	(8,555)	9,759
Decrease in bills payable	(616)	(14,843)
Exchange realignment	–	215
	<hr/>	<hr/>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(7,051)	(37,837)
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NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



24. DECONSOLIDATION OF SUBSIDIARIES UNDER LIQUIDATION

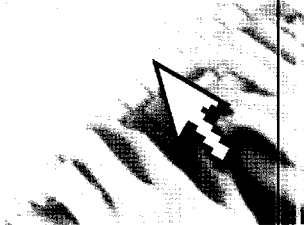
	1999 HK\$'000	1998 HK\$'000
Net assets deconsolidated:		
Fixed assets	3,287	—
Debtors, deposits and prepayments	2,982	—
Bank balances and cash	771	—
Creditors and accrued charges	<u>(2,822)</u>	<u>—</u>
	4,218	—
Translation reserves realised upon commencement of liquidation of subsidiaries		
	(84)	—
Provision for loss upon commencement of liquidation	<u>(4,134)</u>	<u>—</u>
	<u>—</u>	<u>—</u>
Bank balances and cash deconsolidated upon commencement of liquidation of subsidiaries		
	<u>771</u>	<u>—</u>

The net cash flow of the subsidiaries liquidated is not material to the Group as a whole.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$	Trust receipt loans, secured HK\$	Amount due to a related company HK\$
Balance at beginning of the year	28,144	–	62,625
New trust receipt loan raised	–	273	–
Transfer from interest payable	–	–	4,258
Advance from a related company	–	–	8,117
Shares issues:			
– in satisfaction of amount due to a related company	75,000	–	(75,000)
– for cash	2,761	–	–
Share issue expenses	(25)	–	–
Transfer to reserves arising from capital reduction	(13,554)	–	–
Balance at end of the year	<u>92,326</u>	<u>273</u>	<u>–</u>

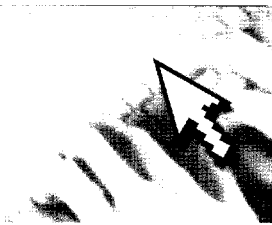
26. CONTINGENT LIABILITIES

Certain former directors issued writs against the Company for claims of approximately HK\$1,542,000 plus interest and costs. The directors are advised by the legal counsel of the Company and believe that it is unlikely that the former directors will succeed in their claims.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 1999



27. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable within the next year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	1999	1998
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	–	10,655
In the second to fifth years inclusive	<u>2,820</u>	<u>2,641</u>
	<u>2,820</u>	<u>13,296</u>

At the balance sheet date, the Company did not have any commitments under non-cancellable operating leases.

28. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged a bank deposit of HK\$2,088,000 (1998: HK\$1,426,000) to secure banking facilities granted to the Group.

FINANCIAL SUMMARY

For the year ended March 31,

	1995	1996	1997	1998	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
TURNOVER	129,167	120,817	120,967	73,251	15,517
OPERATING PROFIT (LOSS)					
Continuing operations excluding exceptional items	24,731	19,568	(21,374)	(78,921)	(25,752)
Exceptional items	23,094	–	(7,092)	(5,216)	(4,134)
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION	47,825	19,568	(28,466)	(84,137)	(29,886)
TAXATION	(3,820)	(3,440)	(148)	–	–
PROFIT (LOSS) FOR THE YEAR	44,005	16,128	(28,614)	(84,137)	(29,886)

As at March 31,

	1995	1996	1997	1998	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	99,853	123,578	97,409	56,571	28,933
TOTAL LIABILITIES	(57,088)	(34,285)	(36,517)	(79,833)	(5,488)
BALANCE (DEFICIENCY) OF SHAREHOLDERS' FUNDS	42,765	89,293	60,892	(23,262)	23,445

Note: The results of the Group for the year ended March 31, 1995 have been extracted from the Company's prospectus dated October 6, 1995 and have been prepared on a combined basis to indicate the results of the Group as if the current Group structure had been in existence throughout that year.



PARTICULARS OF MAJOR PROPERTIES



(A) LEASEHOLD LAND AND BUILDINGS

Name/location	Type	Lease term
No. 326 Kwun Tong Road Kwun Tong Kowloon Hong Kong	Industrial	Medium term lease

(B) INVESTMENT PROPERTIES

Name/location	Type	Lease term
Unit A on 7th Floor Good Luck Industrial Building No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	Industrial	Medium term lease
Unit A on 11th Floor Good Luck Industrial Building No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	Industrial	Medium term lease
Car Parking Space No. P9 on Ground Floor No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	Car park	Medium term lease