



NOTES TO FINANCIAL STATEMENTS

31 March 2001

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- trading of tanned leather
- trading of fur pelts
- manufacture and sale of leather garments
- manufacture and sale of fur garments
- manufacture and sale of fabric garments

In the opinion of the directors, the ultimate holding company is Wellglow Investments Limited, which is incorporated in the British Virgin Islands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001. 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 in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been impairments in values, when they are written down to values determined by the directors.

Fixed assets and depreciation

Fixed assets 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 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.



NOTES TO FINANCIAL STATEMENTS

31 March 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Changes in the values of fixed assets are dealt with as movements in the 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 revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

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.

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

Leasehold land	Over the lease terms
Buildings	2% to 4.5%
Leasehold improvements	18% to 20%
Plant and machinery	9% to 20%
Furniture and equipment	10%
Motor vehicles and vessels	20%

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held for a long term purpose. They are stated at cost less any provisions for impairments in values, other than those considered to be temporary in nature, deemed necessary by the directors, on an individual investment basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a specific item basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the 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 to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

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.



NOTES TO FINANCIAL STATEMENTS

31 March 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

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, 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.

Foreign currencies

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

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

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. 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 Scheme. The assets of the 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 Scheme.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

NOTES TO FINANCIAL STATEMENTS

31 March 2001

3. *TURNOVER*

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

4. *LOSS FROM OPERATING ACTIVITIES*

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cost of inventories sold	100,680	99,772
Inventory provision included in cost of inventories sold	8,298	2,310
Depreciation	1,954	2,245
Auditors' remuneration	905	674
Operating lease rentals in respect of land and buildings	265	217
Staff costs (including directors' remuneration – note 6):		
Wages and salaries	12,203	10,789
Pension contributions	62	–
Total staff costs	12,265	10,789
Loss on disposal of fixed assets	187	–
Revaluation deficit on fixed assets	362	242
Provisions for bad and doubtful debts	1,172	1,574
Foreign exchange losses/(gains), net	(229)	733
Interest income	(2,527)	(2,044)
	 	



NOTES TO FINANCIAL STATEMENTS
31 March 2001

5. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest expense on bank borrowings	3,756	4,719
	<u>3,756</u>	<u>4,719</u>

6. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees	–	–
Salaries, allowances and benefits in kind	3,101	2,522
Pension contributions	12	–
	<u>3,113</u>	<u>2,522</u>

There were no fees nor other emoluments payable to the independent non-executive directors during the year (2000: Nil).

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>1</u>	<u>–</u>

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

NOTES TO FINANCIAL STATEMENTS

31 March 2001

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2000: Three) directors, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining two (2000: Two) non-director, highest paid employees are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	436	422
Pension contributions	7	–
	443	422
	443	422

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

	Number of individuals	
	2001	2000
Nil to HK\$1,000,000	2	2
	2	2

8. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
Provision for the year:		
Hong Kong	–	–
Elsewhere	9	7
Prior year's underprovision	32	–
	41	7
Tax charge for the year	41	7

No provision for Hong Kong tax has been made because the Group had no 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, practices and interpretations in respect thereof.

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$4,015,000 (2000: HK\$12,612,000).



NOTES TO FINANCIAL STATEMENTS

31 March 2001

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss from ordinary activities attributable to shareholders for the year of HK\$6,158,000 (2000: HK\$10,403,000) and 317,035,700 (2000: Weighted average of 271,282,275) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 March 2001 and 2000 has not been calculated because no diluting events existed during these years.

11. FIXED ASSETS

Group

	2000	Additions	Revaluation deficit	Disposals	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At valuation:					
Leasehold land and buildings	30,460	950	(1,487)	(353)	29,570
At cost:					
Leasehold improvements	2,890	72	–	–	2,962
Plant and machinery	5,474	51	–	–	5,525
Furniture and equipment	2,017	36	–	–	2,053
Motor vehicles and vessels	3,656	–	–	–	3,656
	<u>44,497</u>	<u>1,109</u>	<u>(1,487)</u>	<u>(353)</u>	<u>43,766</u>
Accumulated depreciation:					
Leasehold land and buildings	–	861	(850)	(11)	–
Leasehold improvements	1,583	518	–	–	2,101
Plant and machinery	3,269	468	–	–	3,737
Furniture and equipment	1,521	98	–	–	1,619
Motor vehicles and vessels	3,637	9	–	–	3,646
	<u>10,010</u>	<u>1,954</u>	<u>(850)</u>	<u>(11)</u>	<u>11,103</u>
Net book value	<u>34,487</u>				<u>32,663</u>



NOTES TO FINANCIAL STATEMENTS

31 March 2001

11. FIXED ASSETS (continued)

An analysis of the leasehold land and buildings at the balance sheet date is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Situated in the People's Republic of China:		
Hong Kong		
Medium term leases	7,670	7,980
Elsewhere		
Long term leases	750	–
Medium term leases	<u>21,150</u>	<u>22,480</u>
At valuation	<u><u>29,570</u></u>	<u><u>30,460</u></u>

The Group's leasehold land and buildings were revalued at 31 March 2001 by Chung, Chan & Associates, independent professional valuers, on an open market value, existing use basis. Had the land and buildings been carried at historical cost less accumulated depreciation, their carrying values at 31 March 2001 would have been HK\$21,032,000 (2000: HK\$21,744,000).

Certain of the Group's leasehold land and buildings were pledged to secure banking facilities granted to the Group (note 21).

12. LONG TERM INVESTMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	<u>5,117</u>	<u>5,117</u>

13. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	104,256	104,256
Less: Provisions for impairments in values	<u>(68,300)</u>	<u>(65,000)</u>
	35,956	39,256
Due from a subsidiary	<u>81,508</u>	<u>82,193</u>
	<u><u>117,464</u></u>	<u><u>121,449</u></u>



NOTES TO FINANCIAL STATEMENTS

31 March 2001

13. INTERESTS IN SUBSIDIARIES (continued)

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the Company's subsidiaries, all of which are wholly-owned, are as follows:

Name	Place of incorporation/ registration and operations [@]	Nominal value of issued/paid-up capital	Principal activities
Peking Fur and Leather Limited*	British Virgin Islands	Ordinary US\$1,000	Investment holding
Peking Fur Factory (Hong Kong) Limited	Hong Kong	Ordinary HK\$200 Deferred HK\$1,200,000 [#]	Design and sale of leather garments, fur garments and other garments and the trading of tanned leather and fur pelts
Shen Zhen Gangjing Fur & Leather Factory Ltd.	People's Republic of China	RMB7,600,000	Design, manufacture and sale of leather garments, fur garments and other garments
Jiayi Fashion (Shenzhen) Co., Ltd.	People's Republic of China	HK\$2,000,000	Manufacture and sale of leather garments and other garments
J & S International Equities Holdings Ltd.	British Virgin Islands/People's Republic of China	Ordinary US\$1	Provision of agency services
Lagocircle Limited	British Virgin Islands/People's Republic of China	Ordinary US\$1	Provision of agency services
Peking Leather Factory Limited	Hong Kong	Ordinary HK\$100,000	Dormant
K and K Fur Creation Limited	Hong Kong	Ordinary HK\$200,000	Dormant

[@] Unless otherwise stated, the place of operations is the place of incorporation or registration.

[#] The non-voting deferred shares carry practically no rights to dividends, 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.

* Directly held by the Company.

NOTES TO FINANCIAL STATEMENTS

31 March 2001

14. TRADE AND BILLS RECEIVABLES

The aged analysis of trade and bills receivables is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade receivable:		
Within 3 months	21,313	11,633
4 to 6 months	3,669	8,003
7 to 12 months	8,153	757
Over 1 year	3,523	2,898
	<hr/> 36,658	<hr/> 23,291
Less: Provisions for bad and doubtful debts	(4,756)	(3,584)
	<hr/> 31,902	<hr/> 19,707
Bills receivable	–	3,487
	<hr/> 31,902	<hr/> 23,194
	<hr/> 31,902	<hr/> 23,194

Trading terms with customers are largely on credit and invoices are normally payable within one to three months from the date of issuance. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

15. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	46,921	60,360
Finished goods	7,473	13,395
	<hr/> 54,394	<hr/> 73,755
	<hr/> 54,394	<hr/> 73,755

The carrying amount of inventories carried at net realisable value included in the above is HK\$40,309,000 (2000: HK\$50,355,000).

During the year, the general provision rates for inventory obsolescence in respect of finished goods had been revised. The effect of such change in accounting estimate was an increase in inventory provision by approximately HK\$2,337,000 for the year ended 31 March 2001.



NOTES TO FINANCIAL STATEMENTS
31 March 2001

16. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade payable:		
Within 3 months	656	9,564
4 to 6 months	406	1,310
7 to 12 months	2,583	139
Over 1 year	31	2,979
	<hr/>	<hr/>
	3,676	13,992
Bills payable	673	2,008
	<hr/>	<hr/>
	4,349	16,000
	<hr/> <hr/>	<hr/> <hr/>

17. DEFERRED TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
At beginning and end of year	72	72
	<hr/> <hr/>	<hr/> <hr/>

The provision for deferred tax relates wholly to timing differences arising from accelerated depreciation allowances. At the balance sheet date, there were no significant potential deferred tax liabilities for which provision has not been made.

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

18. SHARE CAPITAL

Shares

	Group	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
	<hr/>	<hr/>
Issued and fully paid:		
317,035,700 ordinary shares of HK\$0.10 each	31,704	31,704
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

31 March 2001

18. SHARE CAPITAL (continued)

The movements of the Company's ordinary share capital during the prior year are as follows:

	Carrying amount HK\$'000	Shares issued
At 1 April 1999	26,704	267,035,700
Issue of new shares	5,000	50,000,000
	31,704	317,035,700
At 31 March 2000 and 2001	31,704	317,035,700

Share options

On 18 February 1997, the Company adopted a share option scheme under which the directors may, at their discretion, invite any employee or executive director of the Group to take up options to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company.

No share options were granted during the year and there were no share options outstanding at the balance sheet date.

19. RESERVES

Group

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 March 1999	37,396	15,992	173	(624)	36,610	89,547
Revaluation deficit	–	(1,578)	–	–	–	(1,578)
Issue of shares	12,500	–	–	–	–	12,500
Share issue expenses	(310)	–	–	–	–	(310)
Loss for the year	–	–	–	–	(10,403)	(10,403)
	49,586	14,414	173	(624)	26,207	89,756
At 31 March 2000 and 1 April 2000	49,586	14,414	173	(624)	26,207	89,756
Exchange realignments	–	–	–	(9)	–	(9)
Revaluation deficit	–	(275)	–	–	–	(275)
Transfer upon disposal	–	(251)	–	–	251	–
Loss for the year	–	–	–	–	(6,158)	(6,158)
	49,586	13,888	173	(633)	20,300	83,314
At 31 March 2001	49,586	13,888	173	(633)	20,300	83,314

Pursuant to the relevant laws and regulations, a portion of the profits of the Group's subsidiaries in the People's Republic of China have been transferred to a reserve fund which is restricted as to its use.



NOTES TO FINANCIAL STATEMENTS

31 March 2001

19. RESERVES (continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 1999	37,396	102,313	(49,609)	90,100
Issue of shares	12,500	–	–	12,500
Share issue expenses	(310)	–	–	(310)
Loss for the year	–	–	(12,612)	(12,612)
At 31 March 2000 and 1 April 2000	49,586	102,313	(62,221)	89,678
Loss for the year	–	–	(4,015)	(4,015)
At 31 March 2001	49,586	102,313	(66,236)	85,663

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the fair value of the subsidiaries acquired under the Group reorganisation at the time of the Company's listing. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.

20. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities

	Group	
	2001 HK\$'000	2000 HK\$'000
Loss from operating activities	(2,361)	(5,677)
Interest income	(2,527)	(2,044)
Depreciation	1,954	2,245
Revaluation deficit on fixed assets	362	242
Loss on disposal of fixed assets	187	–
Increase in trade and bills receivables	(8,708)	(11,732)
Decrease in inventories	19,361	7,704
Decrease/(increase) in other receivables, prepayments and deposits	(460)	199
Increase/(decrease) in trust receipt loans	3,039	(4,245)
Increase/(decrease) in trade and bills payables	(11,651)	4,524
Increase/(decrease) in other payables and accruals	2,956	(698)
Net cash inflow/(outflow) from operating activities	2,152	(9,482)

NOTES TO FINANCIAL STATEMENTS

31 March 2001

20. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital and share premium account HK\$'000
Balance as at 1 April 1999	64,100
Cash inflow from financing activities, net	17,190
Balance at 31 March 2000 and 2001	81,290

21. PLEDGE OF ASSETS

At the balance sheet date, the bank facilities of the Group were secured by the Group's bank deposits and leasehold land and buildings with carrying values of HK\$41,619,000 (2000: HK\$39,106,000) and HK\$7,120,000 (2000: HK\$7,280,000), respectively; guarantees given by the Company and Mr. Char On Man, a director of the Company; and personal properties held by Mr. Char On Man.

22. CONTINGENT LIABILITIES

At the balance sheet date, the contingent liabilities of the Group and Company not provided for in the financial statements were as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(a) Bills discounted with recourse	–	6,035

(b) At the balance sheet date, certain of the Group's employees had completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances specified in the Ordinance. Had the employment of all of these eligible employees been terminated under the circumstances specified by the Ordinance, the Group's liability at 31 March 2001, which has not been provided for in the financial statements, would have been approximately HK\$2,014,000 (2000: HK\$1,718,000).

(c) The Company has given guarantees to banks in connection with facilities granted to a subsidiary amounting to HK\$86,560,000 (2000: HK\$86,560,000), of which HK\$41,795,000 (2000: HK\$36,723,000) had been utilised at the balance sheet date.



NOTES TO FINANCIAL STATEMENTS

31 March 2001

23. COMMITMENTS

At the balance sheet date, the Group had commitments under non-cancellable operating leases in respect of land and buildings to make payments in the following year as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Leases expiring within one year	101	103

At the balance sheet date, the Company did not have any significant commitments.

24. RELATED PARTY TRANSACTION

In the prior year, Jiayi Fashion (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company, acquired from an independent third party a 5% equity interest in Harbin Oversea Real Estate Development Limited (“Harbin Oversea”) for a cash consideration of approximately HK\$1,753,000, agreed between both parties and represented the par value of the registered capital of Harbin Oversea which was acquired. The remaining 95% equity interest in Harbin Oversea is held by Pretty Ocean Development Limited (“Pretty Ocean”), a company in which Mr. Char On Man and Ms. So Choi Hing, Stella, directors of the Company, have beneficial interests therein. Pretty Ocean will be responsible for the procurement of all necessary funding required by Harbin Oversea and the Group has no further commitment in respect of its 5% equity interest therein. Notwithstanding aforementioned, the Group is entitled to share 5% of all profits and net assets in Harbin Overseas.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 July 2001.