



# NOTES TO FINANCIAL STATEMENTS

31 March 2002

## 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. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 14 (Revised): “Leases”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 25 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.



# NOTES TO FINANCIAL STATEMENTS

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of presentation**

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

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Fixed assets and depreciation**

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

Changes in the values of fixed assets are dealt with as movements in the 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.



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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fixed assets and depreciation (continued)

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

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 on a long term basis. They are stated at cost less any impairment losses, on an individual investment basis.

#### Impairment of assets

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

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

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

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

#### 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.



## NOTES TO FINANCIAL STATEMENTS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

#### **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 payable under the operating leases are charged 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.



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### 3. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

#### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 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 MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in the People’s Republic of China (the “PRC”) are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to make contributions based on a percentage of the payroll costs to the central pension 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.

### 4. *SEGMENT INFORMATION*

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- (a) the fur segment engages in the trading of fur pelts, and the manufacture and sale of fur garments;
- (b) the leather segment engages in the trading of tanned leather, and the manufacture and sale of leather garments;
- (c) the fabric garments segment engages in the manufacture and sale of fabric garments; and
- (d) the corporate and other segment comprises corporate income and expense items, and the trading of other products.



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## 4. SEGMENT INFORMATION (continued)

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

### (a) Business segments

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

Group	Fur		Leather		Fabric garments		Corporate and others		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:										
Sales to external customers	<u>40,447</u>	<u>58,017</u>	<u>24,299</u>	<u>46,402</u>	<u>10,740</u>	<u>11,275</u>	<u>251</u>	<u>572</u>	<u>75,737</u>	<u>116,266</u>
Other revenue	<u>264</u>	<u>137</u>	<u>92</u>	<u>511</u>	<u>139</u>	<u>264</u>	<u>3</u>	<u>4</u>	<u>498</u>	<u>916</u>
Segment results	<u>7,642</u>	<u>13,045</u>	<u>(67)</u>	<u>(11,429)</u>	<u>(319)</u>	<u>5,443</u>	<u>(11,653)</u>	<u>(11,947)</u>	<u>(4,397)</u>	<u>(4,888)</u>
Interest income									<u>1,029</u>	<u>2,527</u>
Loss from operating activities									<u>(3,368)</u>	<u>(2,361)</u>
Finance costs									<u>(1,235)</u>	<u>(3,756)</u>
Loss before tax									<u>(4,603)</u>	<u>(6,117)</u>
Tax									<u>4,686</u>	<u>(41)</u>
Net profit/(loss) from ordinary activities attributable to shareholders									<u>83</u>	<u>(6,158)</u>
Segment assets	<u>55,818</u>	<u>68,584</u>	<u>18,823</u>	<u>38,816</u>	<u>8,292</u>	<u>9,874</u>	<u>37,368</u>	<u>27,024</u>	<u>120,301</u>	<u>144,298</u>
Bank overdrafts included in segment assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,187</u>	<u>26,947</u>	<u>1,187</u>	<u>26,947</u>
Total assets	<u>55,818</u>	<u>68,584</u>	<u>18,823</u>	<u>38,816</u>	<u>8,292</u>	<u>9,874</u>	<u>38,555</u>	<u>53,971</u>	<u>121,488</u>	<u>171,245</u>
Segment liabilities	<u>2,070</u>	<u>10,477</u>	<u>1,484</u>	<u>7,189</u>	<u>210</u>	<u>1,954</u>	<u>2,289</u>	<u>9,660</u>	<u>6,053</u>	<u>29,280</u>
Bank overdrafts included in segment assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,187</u>	<u>26,947</u>	<u>1,187</u>	<u>26,947</u>
Total liabilities	<u>2,070</u>	<u>10,477</u>	<u>1,484</u>	<u>7,189</u>	<u>210</u>	<u>1,954</u>	<u>3,476</u>	<u>36,607</u>	<u>7,240</u>	<u>56,227</u>
Other segment information:										
Depreciation	<u>820</u>	<u>746</u>	<u>727</u>	<u>653</u>	<u>542</u>	<u>489</u>	<u>77</u>	<u>66</u>	<u>2,166</u>	<u>1,954</u>
Deficit on revaluation	<u>188</u>	<u>112</u>	<u>131</u>	<u>193</u>	<u>62</u>	<u>55</u>	<u>6</u>	<u>2</u>	<u>387</u>	<u>362</u>
Capital expenditure	<u>361</u>	<u>399</u>	<u>350</u>	<u>383</u>	<u>253</u>	<u>277</u>	<u>46</u>	<u>50</u>	<u>1,010</u>	<u>1,109</u>

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## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		United States of America		Japan		Germany		Other countries		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:														
Sales to external customers	<u>22,947</u>	<u>22,715</u>	<u>15,353</u>	<u>41,426</u>	<u>2,824</u>	<u>23,335</u>	<u>11,017</u>	<u>1,547</u>	<u>12,648</u>	<u>10,000</u>	<u>10,948</u>	<u>17,243</u>	<u>75,737</u>	<u>116,266</u>
Segment results	<u>4,047</u>	<u>2,957</u>	<u>1,733</u>	<u>1,533</u>	<u>448</u>	<u>(1,424)</u>	<u>522</u>	<u>592</u>	<u>77</u>	<u>4,790</u>	<u>511</u>	<u>(1,137)</u>	<u>7,338</u>	<u>7,311</u>
Corporate expenses													<u>(11,735)</u>	<u>(12,199)</u>
Loss from operating activities before interest income													<u>(4,397)</u>	<u>(4,888)</u>
Other segment information:														
Segment assets	<u>61,996</u>	<u>51,825</u>	<u>57,695</u>	<u>90,749</u>	<u>18</u>	<u>643</u>	<u>37</u>	<u>-</u>	<u>10</u>	<u>19</u>	<u>545</u>	<u>1,062</u>	<u>120,301</u>	<u>144,298</u>
Bank overdrafts included in segment assets	<u>1,187</u>	<u>26,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,187</u>	<u>26,947</u>
Total assets	<u>63,183</u>	<u>78,772</u>	<u>57,695</u>	<u>90,749</u>	<u>18</u>	<u>643</u>	<u>37</u>	<u>-</u>	<u>10</u>	<u>19</u>	<u>545</u>	<u>1,062</u>	<u>121,488</u>	<u>171,245</u>
Capital expenditure	<u>77</u>	<u>108</u>	<u>933</u>	<u>1,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,010</u>	<u>1,109</u>

## 5. TURNOVER

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



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**6. LOSS FROM OPERATING ACTIVITIES**

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

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	61,478	100,680
Inventory provision/(reversal of inventory provision) included in cost of inventories sold	(3,157)*	8,298
Depreciation	2,166	1,954
Auditors' remuneration	730	905
Minimum lease payments under operating leases in respect of land and buildings	217	265
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	11,535	12,203
Pension scheme contributions	209	62
	11,744	12,265
Loss on disposal of fixed assets	591	187
Revaluation deficit on fixed assets	387	362
Foreign exchange gains, net	(83)	(229)
Interest income	<u>(1,029)</u>	<u>(2,527)</u>

\* The reversal relates to goods which were sold during the year for which the provision made at 31 March 2001 is no longer considered necessary.

**7. FINANCE COSTS**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interest expense on bank borrowings	<u>1,235</u>	<u>3,756</u>



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## 8. 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:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	<b>3,141</b>	3,101
Pension scheme contributions	<b>36</b>	12
	<b><u>3,177</u></b>	<b><u>3,113</u></b>

There were no fees nor other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	<b>Number of directors</b>	
	<b>2002</b>	2001
Nil to HK\$1,000,000	<b>4</b>	4
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
	<b><u>1</u></b>	<b><u>1</u></b>

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Salaries, allowance and benefits in kind	<b>443</b>	436
Pension scheme contributions	<b>21</b>	7
	<b><u>464</u></b>	<b><u>443</u></b>



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**9. FIVE HIGHEST PAID EMPLOYEES (continued)**

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

**10. TAX**

	Group	
	2002 HK\$'000	2001 HK\$'000
Provision for the year:		
Hong Kong	–	–
Elsewhere	–	(9)
Over/(under)provision in prior years	4,614	(32)
Deferred (note 19)	<u>72</u>	<u>–</u>
Tax credit/(charge) for the year	<u>4,686</u>	<u>(41)</u>

No provision for Hong Kong profits tax has been made because the Group had unutilised tax losses brought forward from prior years. 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.

There was no unprovided deferred tax in respect of the year (2001: Nil).

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is HK\$3,350,000 (2001: HK\$4,015,000).

**12. EARNINGS/(LOSS) PER SHARE**

The calculation of the basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$83,000 (2001: net loss of HK\$6,158,000) and 317,035,700 (2001: 317,035,700) ordinary shares in issue during the year.

The diluted earnings/(loss) per share for the years ended 31 March 2002 and 2001 have not been disclosed as no diluting events existed during these years.

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## 13. FIXED ASSETS

### Group

	2001	Additions	Revaluation deficit	Disposals	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At valuation:					
Leasehold land and buildings	29,570	586	(2,061)	(1,130)	26,965
At cost:					
Leasehold improvements	2,962	17	–	–	2,979
Plant and machinery	5,525	347	–	(515)	5,357
Furniture and equipment	2,053	60	–	–	2,113
Motor vehicles and vessels	3,656	–	–	–	3,656
	43,766	1,010	(2,061)	(1,645)	41,070
Accumulated depreciation:					
Leasehold land and buildings	–	821	(821)	–	–
Leasehold improvements	2,101	425	–	–	2,526
Plant and machinery	3,737	810	–	(465)	4,082
Furniture and equipment	1,619	100	–	–	1,719
Motor vehicles and vessels	3,646	10	–	–	3,656
	11,103	2,166	(821)	(465)	11,983
Net book value	32,663				29,087

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Situated in the PRC:		
Hong Kong		
Medium term leases	7,140	7,670
Elsewhere		
Long term leases	750	750
Medium term leases	19,075	21,150
At valuation	26,965	29,570



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### 13. *FIXED ASSETS (continued)*

The Group's leasehold land and buildings were revalued individually at 31 March 2002 by Chung, Chan & Associates, independent professionally qualified valuers, on an open market value, existing use basis. Had the land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts at 31 March 2002 would have been HK\$21,344,000 (2001: HK\$22,573,000).

Certain of the Group's leasehold land and buildings were pledged to secure banking facilities granted to the Group (note 23).

### 14. *LONG TERM INVESTMENTS*

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted equity investments, at cost	<u>5,117</u>	<u>5,117</u>

### 15. *INTERESTS IN SUBSIDIARIES*

	<b>Company</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>104,256</b>	104,256
Less: Provision for impairment	<u>(70,800)</u>	<u>(68,300)</u>
	<b>33,456</b>	35,956
Due from a subsidiary	<u>80,795</u>	<u>81,508</u>
	<u><b>114,251</b></u>	<u>117,464</u>

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



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## 15. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations <sup>@</sup>	Nominal value of issued/paid-up capital	Principal activities
Peking Fur and Leather Limited*	British Virgin Islands/ Hong Kong	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.	PRC	RMB7,600,000	Design, manufacture and sale of leather garments, fur garments and other garments
Jiayi Fashion (Shenzhen) Co., Ltd.	PRC	HK\$2,000,000	Manufacture and sale of leather garments and other garments
J & S International Equities Holdings Ltd.	British Virgin Islands/PRC	Ordinary US\$1	Provision of agency services
Lagocircle Limited	British Virgin Islands/PRC	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

<sup>@</sup> Unless otherwise stated, the place of operations is the place of incorporation or registration.

<sup>#</sup> 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.

<sup>\*</sup> Directly held by the Company.



## NOTES TO FINANCIAL STATEMENTS

31 March 2002

### 16. TRADE AND BILLS RECEIVABLES

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Trade receivable:		
Within 3 months	<b>6,133</b>	21,313
4 to 6 months	<b>4,238</b>	3,669
7 to 12 months	<b>1,258</b>	8,153
Over 1 year	<b>7,410</b>	3,523
	<hr/>	<hr/>
	<b>19,039</b>	36,658
Less: Provisions for bad and doubtful debts	<b>(5,307)</b>	(4,756)
	<hr/>	<hr/>
	<b>13,732</b>	31,902
Bills receivable	<b>54</b>	–
	<hr/>	<hr/>
	<b>13,786</b>	31,902
	<hr/> <hr/>	<hr/> <hr/>

The Group's trading terms with its customers are mainly 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.

### 17. INVENTORIES

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>37,846</b>	46,921
Finished goods	<b>3,280</b>	7,473
	<hr/>	<hr/>
	<b>41,126</b>	54,394
	<hr/> <hr/>	<hr/> <hr/>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$30,034,000 (2001: HK\$40,309,000) as at the balance sheet date.



# NOTES TO FINANCIAL STATEMENTS

31 March 2002

## 18. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade payable:		
Within 3 months	602	656
4 to 6 months	600	406
7 to 12 months	854	2,583
Over 1 year	137	31
	2,193	3,676
Bills payable	887	673
	3,080	4,349

## 19. DEFERRED TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Balance at beginning of year	72	72
Credit for the year (note 10)	(72)	–
At 31 March	–	72

The provision for deferred tax at 31 March 2001 related 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.



# NOTES TO FINANCIAL STATEMENTS

31 March 2002

## 20. SHARE CAPITAL

### Shares

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<b>100,000</b>	100,000
Issued and fully paid:		
317,035,700 ordinary shares of HK\$0.10 each	<b>31,704</b>	31,704

### Share options

The Company operates a share option scheme, further details of which are set out under the heading “Share option scheme” in the Report of the Directors on page 10 of the Annual Report.

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

## 21. RESERVES

### Group

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Reserve funds (Note) HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 March 2000	49,586	14,414	173	(624)	26,207	89,756
Exchange realignments	–	–	–	(9)	–	(9)
Revaluation deficit	–	(275)	–	–	–	(275)
Transfer upon disposals	–	(251)	–	–	251	–
Net loss for the year	–	–	–	–	(6,158)	(6,158)
At 31 March 2001 and 1 April 2001	49,586	13,888	173	(633)	20,300	83,314
Revaluation deficit	–	(853)	–	–	–	(853)
Transfer upon disposals	–	(677)	–	–	677	–
Net profit for the year	–	–	–	–	83	83
<b>At 31 March 2002</b>	<b>49,586</b>	<b>12,358</b>	<b>173</b>	<b>(633)</b>	<b>21,060</b>	<b>82,544</b>

Note: Pursuant to the relevant laws and regulations, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to reserve funds which are restricted as to use.



# NOTES TO FINANCIAL STATEMENTS

31 March 2002

## 21. RESERVES (continued)

### Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31 March 2000	49,586	102,313	(62,221)	89,678
Net loss for the year	–	–	(4,015)	(4,015)
At 31 March 2001 and 1 April 2001	49,586	102,313	(66,236)	85,663
Net loss for the year	–	–	(3,350)	(3,350)
<b>At 31 March 2002</b>	<b><u>49,586</u></b>	<b><u>102,313</u></b>	<b><u>(69,586)</u></b>	<b><u>82,313</u></b>

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 in certain circumstances.

## 22. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss from operating activities to net cash inflow from operating activities

	Group	
	2002 HK\$'000	2001 HK\$'000
Loss from operating activities	(3,368)	(2,361)
Interest income	(1,029)	(2,527)
Depreciation	2,166	1,954
Revaluation deficit on fixed assets	387	362
Loss on disposal of fixed assets	591	187
Provision against proceeds receivable from disposal of fixed assets	323	–
Decrease/(increase) in trade and bills receivables	18,116	(8,708)
Decrease in inventories	13,268	19,361
Increase in other receivables, prepayments and deposits	(756)	(460)
Increase/(decrease) in trust receipt loans	(13,314)	3,039
Decrease in trade and bills payables	(1,269)	(11,651)
Increase/(decrease) in other payables and accruals	(4,714)	2,956
Net cash inflow from operating activities	<b><u>10,401</u></b>	<b><u>2,152</u></b>



# NOTES TO FINANCIAL STATEMENTS

31 March 2002

## 23. 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\$26,594,000 (2001: HK\$41,619,000) and HK\$6,630,000 (2001: HK\$7,120,000), respectively; and guarantees given by the Company.

## 24. 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:

- (a) 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 2002, which has not been provided for in the financial statements, would have been approximately HK\$2,008,000 (2001: HK\$2,014,000); and
- (b) The Company has given guarantees to a bank in connection with facilities granted to a subsidiary amounting to HK\$71,560,000 (2001: HK\$86,560,000), of which HK\$2,935,000 (2001: HK\$41,795,000) had been utilised at the balance sheet date.

## 25. OPERATING LEASE ARRANGEMENTS

The Group leases one of its shops under an operating lease arrangement. The lease is negotiated for terms of approximately one year.

At the balance sheet date, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<u>75</u>	<u>101</u>

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required.

## 26. RELATED PARTY TRANSACTIONS

On 28 March 2002, Char On Man, a director of the Company, acquired an equity interest of 35% in a tanning and dyeing company. The Group paid tanning and dyeing fees amounting to HK\$12,000 to this company during the period from 28 March 2002 to 31 March 2002.

## 27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 July 2002.