



NOTES TO FINANCIAL STATEMENTS

31 March 2003

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 STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

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

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

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 18 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. Further details of these changes and the prior year adjustments that have resulted from them are included in note 25(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. Disclosures are now required in respect of the Company’s share option scheme, as detailed in note 23 to the financial statements. These share option scheme disclosures are similar to the disclosures under the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.



NOTES TO FINANCIAL STATEMENTS

31 March 2003

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 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

Related parties

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

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.



NOTES TO FINANCIAL STATEMENTS

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profits as a movement in reserves.

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

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%

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.

Leased assets

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

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.



NOTES TO FINANCIAL STATEMENTS

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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.

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.

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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



NOTES TO FINANCIAL STATEMENTS

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employment Ordinance long service payments (continued)

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group as at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes

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

The employees of the Group’s subsidiaries which operate in the Peoples’ Republic of China (the “PRC”) are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions based on a percentage of the payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

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

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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


NOTES TO FINANCIAL STATEMENTS

31 March 2003

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products 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 the 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 others segment comprises corporate income and expense items, and the trading of other products.

In determining the Group's geographical segments, revenues 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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>54,490</u>	<u>40,447</u>	<u>26,776</u>	<u>24,299</u>	<u>8,241</u>	<u>10,740</u>	<u>571</u>	<u>251</u>	<u>90,078</u>	<u>75,737</u>
Segment results	<u>6,354</u>	<u>7,642</u>	<u>1,503</u>	<u>(67)</u>	<u>1,605</u>	<u>(319)</u>	<u>(12,011)</u>	<u>(11,653)</u>	<u>(2,549)</u>	<u>(4,397)</u>
Interest income									<u>469</u>	<u>1,029</u>
Loss from operating activities									<u>(2,080)</u>	<u>(3,368)</u>
Finance costs									<u>(195)</u>	<u>(1,235)</u>
Loss before tax									<u>(2,275)</u>	<u>(4,603)</u>
Tax									<u>(104)</u>	<u>4,686</u>
Net profit/(loss) from ordinary activities attributable to shareholders									<u>(2,379)</u>	<u>83</u>



NOTES TO FINANCIAL STATEMENTS

31 March 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Fur		Leather		Fabric garments		Corporate and others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	67,529	55,818	14,131	18,823	7,446	8,292	35,360	36,603	124,466	119,536
Unallocated assets									-	765
Bank overdrafts included in segment assets	-	-	-	-	-	-	4,479	1,187	4,479	1,187
Total assets									<u>128,945</u>	<u>121,488</u>
Segment liabilities	2,882	1,209	1,089	1,484	22	210	3,769	2,289	7,762	5,192
Unallocated liabilities									4,837	861
Bank overdrafts included in segment assets	-	-	-	-	-	-	4,479	1,187	4,479	1,187
Total liabilities									<u>17,078</u>	<u>7,240</u>
Other segment information:										
Depreciation	637	820	545	727	411	542	52	77	1,645	2,166
Deficit on revaluation recognised directly in the profit and loss account	94	188	42	131	54	62	-	6	190	387
Deficit on revaluation recognised directly in equity	2	299	-	298	-	213	-	43	2	853
Capital expenditure	<u>540</u>	<u>361</u>	<u>385</u>	<u>350</u>	<u>312</u>	<u>253</u>	<u>10</u>	<u>46</u>	<u>1,247</u>	<u>1,010</u>


NOTES TO FINANCIAL STATEMENTS

31 March 2003

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

	Hong Kong		Mainland China		Germany		United States of America		Japan		Other countries		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	<u>35,215</u>	<u>22,947</u>	<u>21,050</u>	<u>15,353</u>	<u>14,481</u>	<u>12,648</u>	<u>10,579</u>	<u>2,824</u>	<u>1,916</u>	<u>11,017</u>	<u>6,837</u>	<u>10,948</u>	<u>90,078</u>	<u>75,737</u>
Other segment information:														
Segment assets	71,573	61,231	51,922	57,695	52	10	147	18	-	37	772	545	124,466	119,536
Unallocated assets													-	765
Bank overdrafts included in segment assets	4,479	1,187	-	-	-	-	-	-	-	-	-	-	4,479	1,187
Total assets													<u>128,945</u>	<u>121,488</u>
Capital expenditure	<u>1,035</u>	<u>77</u>	<u>212</u>	<u>933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,247</u>	<u>1,010</u>

5. TURNOVER

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


NOTES TO FINANCIAL STATEMENTS
 31 March 2003

6. LOSS FROM OPERATING ACTIVITIES

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

	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold	74,388	61,478
Inventory provision/(reversal of inventory provision) included in cost of inventories sold	1,448	(3,157)
Depreciation	1,645	2,166
Auditors' remuneration	589	730
Minimum lease payments under operating leases in respect of land and buildings	575	217
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	12,045	11,535
Pension scheme contributions	547	209
Total staff costs	12,592	11,744
Loss/(gain) on disposal of fixed assets	(40)	591
Revaluation deficit on fixed assets	190	387
Foreign exchange losses/(gains), net	89	(83)
Interest income	(469)	(1,029)
	<u> </u>	<u> </u>

7. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	182	1,235
Interest on hire purchase contract	13	–
	<u> </u>	<u> </u>
	<u>195</u>	<u>1,235</u>


NOTES TO FINANCIAL STATEMENTS
 31 March 2003

8. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	3,403	3,141
Pension scheme contributions	36	36
	<u>3,439</u>	<u>3,177</u>

There were no fees nor other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>5</u>	<u>5</u>

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 (2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, allowance and benefits in kind	427	443
Pension scheme contributions	20	21
	<u>447</u>	<u>464</u>


NOTES TO FINANCIAL STATEMENTS

31 March 2003

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	
	2003	2002
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

10. TAX

	Group	
	2003 HK\$'000	2002 HK\$'000
Provision for the year:		
Hong Kong	-	-
Elsewhere	(104)	-
Overprovision in prior years	-	4,614
Deferred (note 21)	-	72
	<u> </u>	<u> </u>
Tax credit/(charge) for the year	<u>(104)</u>	<u>4,686</u>

No provision for Hong Kong profits 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, interpretations and practices in respect thereof.

There was no unprovided deferred tax in respect of the year (2002: 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 2003 dealt with in the financial statements of the Company was HK\$2,150,000 (2002: HK\$3,350,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$2,379,000 (2002: net profit of HK\$83,000), and 317,035,700 (2002: 317,035,700) ordinary shares in issue during the year.

The diluted earnings/(loss) per share amounts for the years ended 31 March 2003 and 2002 have not been disclosed as no diluting events existed during these years.


NOTES TO FINANCIAL STATEMENTS

31 March 2003

13. FIXED ASSETS

Group	2002 HK\$'000	Additions HK\$'000	Revaluation deficit HK\$'000	Disposals HK\$'000	2003 HK\$'000
At valuation:					
Leasehold land and buildings	26,965	–	(986)	–	25,979
At cost:					
Leasehold improvements	2,979	38	–	–	3,017
Plant and machinery	5,357	29	–	–	5,386
Furniture and equipment	2,113	9	–	–	2,122
Motor vehicles and vessels	3,656	1,171	–	(430)	4,397
	<u>41,070</u>	<u>1,247</u>	<u>(986)</u>	<u>(430)</u>	<u>40,901</u>
Accumulated depreciation:					
Leasehold land and buildings	–	794	(794)	–	–
Leasehold improvements	2,526	178	–	–	2,704
Plant and machinery	4,082	357	–	–	4,439
Furniture and equipment	1,719	100	–	–	1,819
Motor vehicles and vessels	3,656	216	–	(430)	3,442
	<u>11,983</u>	<u>1,645</u>	<u>(794)</u>	<u>(430)</u>	<u>12,404</u>
Net book value	<u><u>29,087</u></u>				<u><u>28,497</u></u>

The net book value of the Group's fixed assets held under a hire purchase contract included in the total amount of motor vehicles and vessels at 31 March 2003 amounted to HK\$790,000 (2002: Nil).

The Group's leasehold land and buildings included above are held under the following lease terms:

	2003 HK\$'000	2002 HK\$'000
Hong Kong		
Medium term leases	6,775	7,140
Mainland China		
Long term leases	700	750
Medium term leases	18,504	19,075
At valuation	<u><u>25,979</u></u>	<u><u>26,965</u></u>

The Group's leasehold land and buildings were revalued individually at 31 March 2003 by Chung, Chan & Associates, independent professionally qualified valuers, on an open market value, existing use basis. Had the leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts at 31 March 2003 would have been HK\$15,483,000 (2002: HK\$16,185,000).


NOTES TO FINANCIAL STATEMENTS
 31 March 2003

13. FIXED ASSETS (continued)

Certain of the Group's leasehold land and buildings with net book value of approximately HK\$21,180,000 (2002: HK\$6,630,000) were pledged to secure banking facilities granted to the Group (note 26).

14. LONG TERM INVESTMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	<u>3,364</u>	<u>5,117</u>

15. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	104,256	104,256
Less: Provisions for impairment	<u>(72,300)</u>	<u>(70,800)</u>
	31,956	33,456
Due from a subsidiary	<u>80,065</u>	<u>80,795</u>
	<u>112,021</u>	<u>114,251</u>

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



NOTES TO FINANCIAL STATEMENTS

31 March 2003

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 [®]	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

[®] 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 2003

16. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of one month, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Trade receivable aged:		
Within 3 months	6,660	6,133
4 to 6 months	6,180	4,238
7 to 12 months	1,126	1,258
Over 1 year	5,148	7,410
	19,114	19,039
Less: Provisions for bad and doubtful debts	(5,234)	(5,307)
	13,880	13,732
Bills receivable	164	54
	14,044	13,786

17. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	46,308	37,846
Finished goods	2,163	3,280
	48,471	41,126

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$30,491,000 (2002: HK\$30,034,000) as at the balance sheet date.


NOTES TO FINANCIAL STATEMENTS
 31 March 2003

18. BANK LOANS AND OVERDRAFTS, SECURED

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank overdrafts	4,479	1,187
Bank loans	934	-
	5,413	1,187
	5,413	1,187

19. HIRE PURCHASE CONTRACT PAYABLES

The Group acquired a motor vehicle under a hire purchase contract with a term of three years. At the balance sheet date, the total future minimum lease payments under the hire purchase contract and their present values were as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	221	-	191	-
In the second year	221	-	204	-
In the third to fifth years, inclusive	147	-	144	-
	589	-	539	-
Total minimum hire purchase contract payments	589	-	539	-
	589	-	539	-
Future finance charges	(50)	-		
	539	-		
Total net hire purchase contract payables	539	-		
	539	-		
Portion classified as current liabilities	(191)	-		
	348	-		
Long term portion	348	-		
	348	-		


NOTES TO FINANCIAL STATEMENTS

31 March 2003

20. 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	
	2003	2002
	HK\$'000	HK\$'000
Trade payable aged:		
Within 3 months	2,098	602
4 to 6 months	530	600
7 to 12 months	141	854
Over 1 year	347	137
	3,116	2,193
Bills payable	–	887
	3,116	3,080

21. DEFERRED TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
Balance at beginning of year	–	72
Credit for the year (note 10)	–	(72)
	–	–
At 31 March	–	–

At 31 March 2003, the deferred tax asset arising from tax losses not recognised in the financial statements was HK\$4,229,000 (2002: HK\$4,222,000).

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.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.


NOTES TO FINANCIAL STATEMENTS

31 March 2003

22. SHARE CAPITAL

	2003	2002
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
317,035,700 ordinary shares of HK\$0.10 each	<u>31,704</u>	<u>31,704</u>

23. SHARE OPTION SCHEME

On 29 August 2002, the share option scheme adopted by the Company on 18 February 1997, under which no share option had been granted, was terminated and a new scheme (the “New Scheme”) was adopted by the shareholders of the Company. The New Scheme will remain in force for 10 years from the date of adoption.

The purpose of the New Scheme is to provide incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the “Invested Entity”). Eligible participants of the New Scheme include employees and directors of the Group or the Invested Entity, suppliers and customers of the Group and the Invested Entity, any person or entity that provides research, development or other technological support to the Group or the Invested Entity, and shareholders of the Group or the Invested Entity.

The maximum number of shares issuable under share options currently permitted to be granted under the New Scheme is 31,703,570, representing 10% of the issued shares of the Company. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and may commence on the date of the offer and shall end no later than 10 years from the date of the offer.

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

The subscription price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet on the date of the offer of the options; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the date of the offer of the options; and (iii) the nominal value of the Company’s shares.

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

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



NOTES TO FINANCIAL STATEMENTS

31 March 2003

24. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 18 of the financial statements.

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

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2001	49,586	102,313	(66,236)	85,663
Net loss for the year	—	—	(3,350)	(3,350)
At 31 March 2002 and 1 April 2002	49,586	102,313	(69,586)	82,313
Net loss for the year	—	—	(2,150)	(2,150)
At 31 March 2003	<u>49,586</u>	<u>102,313</u>	<u>(71,736)</u>	<u>80,163</u>

The Company's contributed surplus represents the excess of the fair value of the subsidiaries acquired under the Group reorganisation at the time of the Company's listing over the nominal value of the Company's shares issued in exchange therefor. 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.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

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


NOTES TO FINANCIAL STATEMENTS

31 March 2003

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Non-cash transaction

During the year, the Group entered into a hire purchase contract in respect of a fixed asset with a total capital value at the inception of the contract of HK\$600,000 (2002: Nil).

26. 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\$26,349,000 (2002: HK\$26,594,000) and HK\$21,180,000 (2002: HK\$6,630,000), respectively, and guarantees given by the Company.

27. CONTINGENT LIABILITIES

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

- (i) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance with a maximum possible amount of HK\$2,073,000 as at 31 March 2003 (2002: HK\$2,008,000), as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability had arisen because, at the balance sheet date, a number of current employees had achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment was terminated under certain circumstances. A provision had not been recognised in respect of such possible payments, as it was not considered probable that the situation would result in a material future outflow of resources from the Group.
- (ii) The Company had given guarantees to a bank in connection with facilities granted to a subsidiary amounting to HK\$71,560,000 (2002: HK\$71,560,000), of which HK\$7,751,000 (2002: HK\$2,935,000) were utilised at the balance sheet date.

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its shops and offices under operating lease arrangements. These leases are negotiated for terms ranging from one to three years.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	736	75
In the second to fifth years, inclusive	456	–
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	1,192	75
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>



NOTES TO FINANCIAL STATEMENTS

31 March 2003

29. RELATED PARTY TRANSACTION

During the year, the Group paid tanning and dyeing fees to a related company which was 35% owned by a director of the Company up to 2 September 2002 before the director disposed of his interest therein to other shareholders in this company, who are not related or connected to the Company's directors or other substantial shareholders. The tanning and dyeing fees paid by the Group to the related company during the relevant period was HK\$946,000 (2002: HK\$12,000). The directors consider that the fees charged were comparable to those charged by other tanning and dyeing companies.

30. COMPARATIVE AMOUNTS

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

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 July 2003.