



## NOTES TO CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2003

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

These condensed financial statements should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2002 except that the Group has adopted SSAP 12 “Income Taxes” issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003:

The changes to the Group’s accounting policies and the effect of adopting the new policies is set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.



As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained earnings at 1 January 2002 and 2003 have been reduced by HK\$397,000 and HK\$275,000, respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in a decrease in deferred tax liabilities at 31 December 2002 by HK\$243,000. The profit and amount charged directly to equity for the six months ended 30 June 2002 have been reduced by HK\$156,000 and HK\$36,000 respectively.

## 2. SEGMENT INFORMATION

The Group is principally engaged in manufacturing and trading of handbag products and related accessories and trading of raw materials.

### PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

The Group is organised into two main business segments:

Sales of manufactured goods – manufacture and sale of handbag products and related accessories

Trading of raw materials – trading of raw materials

### SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

The Group's principal markets are located in four main geographical areas:

United States of America – sales of manufactured goods

Europe – sales of manufactured goods

The PRC – trading of raw materials and sales of manufactured goods

Asian region except the PRC – trading of raw materials and sales of manufactured goods



An analysis of the Group's revenue and results for the period by business segments is as follows:

(Unaudited)			
Six months ended 30 June 2003			
	Sales of manufactured goods HK\$'000	Trading of raw materials HK\$'000	Group HK\$'000
Revenues	115,075	28,023	143,098
Segment results	19,327	836	20,163
Unallocated costs			(11,853)
Other revenue			52
Operating profit			8,362
Finance costs			(1,445)
Share of profits of an associated company			24
Profit before taxation			6,941
Taxation			(1,718)
Profit attributable to shareholders			5,223

(Unaudited)			
Six months ended 30 June 2002			
	Sales of manufactured goods HK\$'000	Trading of raw materials HK\$'000	Group HK\$'000
Revenues	116,588	36,486	153,074
Segment results	13,064	1,384	14,448
Unallocated costs			(6,967)
Other revenue			779
Operating profit			8,260
Finance costs			(2,013)
Profit before taxation			6,247
Taxation			(1,389)
Profit attributable to shareholders			4,858



An analysis of the Group's turnover and contribution to operating profit for the period by geographical segment is as follows:

	Turnover		Operating profit	
	Six months ended		Six months ended	
	30 June		30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of				
America	<b>68,206</b>	85,492	<b>11,347</b>	9,535
Europe	<b>41,307</b>	30,075	<b>7,687</b>	3,402
The PRC	<b>26,605</b>	19,619	<b>612</b>	644
Asian region except the PRC	<b>6,980</b>	17,888	<b>517</b>	867
	<b>143,098</b>	153,074	<b>20,163</b>	14,448

Sales are based on the country in which the customers are located. There are no sales between the segments.

### 3. OPERATING PROFIT

Operating profit is stated after charging the following:-

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Depreciation:		
Owned fixed assets	<b>5,037</b>	4,654
Leased fixed assets	<b>113</b>	132
Amortisation of goodwill	<b>37</b>	37
Staff costs	<b>16,238</b>	12,509
Cost of inventories sold	<b>102,321</b>	109,775



#### 4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) based on the assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	805	497
– Overseas taxation	1,065	495
Deferred taxation relating to the origination and reversal of temporary differences	(216)	397
Deferred taxation resulting from an increase in tax rate	60	–
	1,714	1,389
Share of taxation attributable to:		
Associated company	4	–
Taxation charge	1,718	1,389

#### 5. DIVIDEND

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).



## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$5,223,000 (2002: HK\$4,858,000).

The basic earnings per share is based on the weighted average of 200,000,000 (2002: 200,000,000) ordinary shares in issue during the period.

Diluted earnings per share for the periods ended 30 June 2003 and 2002 respectively was not disclosed as there were no dilutive potential ordinary shares.

## 7. CAPITAL EXPENDITURE

	<b>Goodwill</b>	<b>Fixed assets</b>
	HK\$'000	HK\$'000
<b>Six months ended 30 June 2003</b>		
Opening net book amount	222	43,780
Additions	–	7,356
Amortisation/depreciation charge	(37)	(5,150)
Closing net book amount	185	45,986

## 8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables and their ageing analysis is as follows:

	<b>30 June 2003</b>	31 December 2002
	HK\$'000	HK\$'000
Current to 30 days	<b>33,296</b>	20,209
31 to 60 days	<b>12,536</b>	16,459
61 to 90 days	<b>7,958</b>	7,289
Over 90 days	<b>8,512</b>	20,770
	<b>62,302</b>	64,727

Customers are generally granted credit terms of 30 to 90 days.



## 9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables and their ageing analysis is as follows:

	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>2,339</b>	2,606
31 to 60 days	<b>1,102</b>	1,343
61 to 90 days	<b>564</b>	792
Over 90 days	<b>201</b>	241
	<b>4,206</b>	4,982

## 10. LONG TERM LIABILITIES

	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Obligations under finance leases	–	73
Current portion of long term liabilities	–	(73)
	–	–

At 30 June 2003, the Group's bank loans and finance lease liabilities were repayable as follows:

	<b>Obligations under finance leases</b>	
	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	–	73
In the second year	–	–
	–	73



At 30 June 2003, the Group's present value of finance lease liabilities were repayable as follows:

	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	–	94
In the second year	–	–
	–	94
Future finance charges on finance leases	–	(21)
Present value of finance lease liabilities	–	73

#### 11. SHARE CAPITAL

	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Authorised:</b>		
1,000,000,000 ordinary shares of HK\$0.1 each	<b>100,000</b>	100,000
<b>Issued and fully paid:</b>		
200,000,000 ordinary shares of HK\$0.1 each	<b>20,000</b>	20,000





## 12. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	<b>30 June</b>	31 December
	<b>HK\$'000</b>	HK\$'000
At the beginning of the period/year	<b>638</b>	–
Deferred taxation (credited)/charged to income statement	<b>(156)</b>	275
Taxation charged to equity	<b>36</b>	363
At the end of the period/year	<b>518</b>	638

The deferred taxation charged to equity during the period is as follows:

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Fair value reserves in shareholders' equity		
– properties	<b>36</b>	362



### 13. CONTINGENT LIABILITIES

At 30 June 2003, the Group had the following contingent liabilities not provided for in the financial statements:

	Group		Company	
	30 June 2003 HK\$'000	31 December 2002 HK\$'000	30 June 2003 HK\$'000	31 December 2002 HK\$'000
(a) Guarantees for bank loans and trust receipt loans of subsidiaries	–	–	58,045	39,201
Bills of exchange discounted with recourse	5,403	4,774	–	–
	<b>5,403</b>	4,774	<b>58,045</b>	39,201

Management anticipate that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

- (b) At 30 June 2003, several employees of the Group and the Company had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group and the Company are only liable to make such payments where the termination meets the required circumstances specified in the Ordinance. If the termination of the employees met the circumstances required by the Ordinance, the Group's and the Company's liability at 30 June 2003 would have been approximately HK\$591,000 (31 December 2002: HK\$576,000). No provision has been made for this amount in the financial statements.



#### 14. OPERATING LEASES COMMITMENTS

At 30 June 2003, the Group's had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>30 June</b>	31 December
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>332</b>	327
Later than one year and not later than five years	<b>321</b>	612
	<b>653</b>	939