

Notes to the Accounts

1 Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 6th September 2000 as an exempted company with limited liability under the Company Law (2000 Revision) of the Cayman Islands.

On 29th December 2000, pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the shares in the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire issued share capital of Glory Access Limited (“Glory Access”) through a share swap and became the holding company of Glory Access and its subsidiaries. Details of the Reorganisation are set out in the prospectus of the Company dated 4th January 2001.

The Company’s shares were listed on the Stock Exchanges on 16th January 2001.

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.127 “Accounting for Group Reconstructions”. The consolidated accounts of the Group for the year ended 31st December 2000, including the comparative figures, are prepared as if the Company as having been the holding company of the Group since 1st January 1999.

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain property in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

No balance sheet of the Company as at 31st December 1999 is presented in the accounts, as the Company was not incorporated on that date.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group since 1st January 1999.

Notes to the Accounts

2 Principal accounting policies (Continued)

(a) Consolidation (Continued)

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Goodwill

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired and is taken to reserves in the year of acquisition.

(c) Property, plant and equipment

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation to reflect recoverable amount. Independent valuations are performed on a regular basis. In the intervening years, the directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Leasehold land and buildings are depreciated over the period of the lease on a straight line basis at rates ranging from 2% to 5%.

Notes to the Accounts

2 Principal accounting policies (Continued)

(c) Property, plant and equipment (Continued)

(ii) Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates of depreciation are as follows:

Plant and machinery	20%
Furniture and fixtures	20%
Motor vehicles	20% - 25%
Moulds	25%

(iii) Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment of fixed assets

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

(v) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

Notes to the Accounts

2 Principal accounting policies (Continued)

(d) Assets under finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(e) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(g) Deferred taxation

Deferred taxation is 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 accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

Notes to the Accounts

2 Principal accounting policies (Continued)

(h) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(i) Retirement benefit costs

The Group's contributions to the mandatory provident fund scheme and PRC retirement scheme are expensed as incurred. The assets of these schemes are held separately from those of the Group in independently administered funds.

(j) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of a qualifying asset. No interest is capitalised during the year.

(k) Revenue recognition

Revenue from the sales of manufactured goods and trading of raw materials are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Subcontracting fee income is recognised when the subcontracting services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Notes to the Accounts

3 Turnover, revenue and segment information

The Group is principally engaged in manufacturing and trading of handbag products and related accessories, provision of subcontracting services and trading of raw materials. Revenues recognised during the year are as follows:

	2000	1999
	HK\$'000	HK\$'000
Turnover		
Sales of manufactured goods	287,854	181,322
Subcontracting fee income	36,208	31,401
Trading of raw materials	77,777	90,882
	<u>401,839</u>	<u>303,605</u>
Other revenue		
Interest income	<u>1,243</u>	<u>432</u>
Total revenues	<u>403,082</u>	<u>304,037</u>

An analysis of the Group's turnover and contribution to profit before taxation for the year by principal activity and market is as follows:

	Turnover		Profit before taxation	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Sales of manufactured goods	287,854	181,322	30,085	23,795
Subcontracting fee income	36,208	31,401	8,743	8,707
Trading of raw materials	77,777	90,882	825	1,434
	<u>401,839</u>	<u>303,605</u>	<u>39,653</u>	<u>33,936</u>
Principal markets:				
United States	159,787	116,668	16,826	16,016
Europe	117,314	46,473	12,565	6,182
The People's Republic of China ("PRC")	77,777	90,882	825	1,434
Asia region except PRC	46,961	49,582	9,437	10,304
	<u>401,839</u>	<u>303,605</u>	<u>39,653</u>	<u>33,936</u>

Notes to the Accounts

4 Operating profit

Operating profit is stated after charging the following:

	2000	1999
	HK\$'000	HK\$'000
Deficit on revaluation of fixed assets not covered by previous surpluses	5,851	—
Depreciation:		
Owned fixed assets	4,986	4,607
Leased fixed assets	226	225
Staff costs	22,285	17,078
Cost of inventories	277,106	211,174
Retirement benefit costs (Note 10)	120	—
Auditors' remuneration	520	420
Net exchange losses	372	907

5 Finance costs

	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	6,953	4,750
Interest element of finance leases	59	40
	7,012	4,790

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6 Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries operate.

The amount of taxation charged to the consolidated profit and loss account represents:

	2000	1999
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current	3,669	2,100
Overprovision in prior years	—	(266)
10% 1997/98 Hong Kong profits tax rebate	—	(25)
Overseas taxation		
Current	3,879	4,498
Overprovision in prior years	(2,003)	—
	5,545	6,307

There is no material unprovided deferred taxation for the year.

7 Profit attributable to shareholders

No profit or loss is dealt with in the accounts of the Company since its incorporation.

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8 Dividends

No dividend had been paid by the Company since its incorporation.

The dividends paid or declared by the Company's subsidiaries before the Reorganisation to their then shareholders outside the Group during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Wallmak Enterprise Company Limited		
Interim of HK\$133.48 (1999: HK\$45.00) per share on 180,500 ordinary shares then in issue	24,094	8,122
Interim of HK\$31.91 (1999: HK\$ Nil) per share on 180,500 ordinary shares then in issue	5,760	—
Interim of HK\$12.19 (1999: HK\$ Nil) per share on 180,500 ordinary shares then in issue	2,200	—
Midland Management Limited		
Interim cash dividend, paid of HK\$625.96 (1999: HK\$ Nil) per ordinary share on 12,902 ordinary shares then in issue	8,077	—
Interim cash dividend, paid of HK\$172.83 (1999: HK\$ Nil) per ordinary share on 12,902 ordinary shares then in issue	2,229	—
Final cash dividend, paid of HK\$ Nil (1999: HK\$1,032.96) per ordinary share on 12,902 ordinary shares then in issue	—	13,327
	<u>42,360</u>	<u>21,449</u>

9 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$32,818,000 (1999: HK\$26,498,000) and 160,000,000 shares deemed in issue during the two years. In determining the number of shares in issue, the 10 shares issued before the capitalisation issue and the capitalisation issue of 159,999,990 shares as referred to in notes 20(a), 20(b) and 20(c)(ii) respectively were deemed to have been in issue on 1st January 1999.

Diluted earnings per share for the years ended 31st December 2000 and 1999 respectively was not disclosed as there were no dilutive potential ordinary shares.

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10 Retirement benefits schemes

The Group did not contribute to any retirement benefits scheme for its employees during the year (1999: HK\$ Nil). As at 31st December 2000, the Group had no significant obligation for long service payments to its employees pursuant to the requirements under the Hong Kong Employment Ordinance.

Pursuant to the Mandatory Provident Fund Schemes Ordinance (the “MPF Ordinance”), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the “MPF Scheme”) from 1st December 2000.

The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees’ relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the “MPF Contribution”). The employees also contribute a corresponding amount to the MPF Scheme from 31st December 2000 if their relevant income is more than HK\$4,000 per month. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

The subsidiary in the PRC has participated in employees’ retirement scheme implemented by the local municipal government. Contributions are made by the relevant subsidiary to the scheme based on 10% of the applicable payroll costs.

	2000	1999
	HK\$'000	HK\$'000
Total contributions during the year ended 31st December		
- to the MPF Scheme	15	—
- to the PRC retirement scheme	105	—
	120	—

Notes to the Accounts

11 Directors' and senior management's emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	—	—
Basic salaries and other allowances	1,629	600
Discretionary bonuses	1,000	—
	<u>2,629</u>	<u>600</u>

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2000	1999
HK\$nil - HK\$1,000,000	7	2
HK\$1,500,001 - HK\$2,000,000	1	—
	<u>8</u>	<u>2</u>

The two Non-executive Directors did not receive any emoluments during the year (1999: HK\$ Nil).

No directors waived any emoluments and no incentive payment or compensation for loss of office was paid or payable to any director during the year (1999: HK\$ Nil).

Notes to the Accounts

11 Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (1999: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (1999: four) individuals during the year are as follows:

	2000	1999
	HK\$'000	HK\$'000
Basic salaries and other allowances	447	1,142

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2000	1999
HK\$nil - HK\$1,000,000	2	4