

Notes to Financial Statements (Cont'd)

31 December 2000

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

- (a) Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive Directors	20	120
Non-executive Directors	–	60
Independent non-executive Directors	40	40
	<hr/>	<hr/>
	60	220
Other emoluments to executive Directors:		
Salaries, allowances and benefits in kind	4,927	6,335
Pension scheme contribution	100	143
Less: forfeited contribution*	(63)	–
	<hr/>	<hr/>
Net pension scheme expenses	37	143
	<hr/>	<hr/>
Total Directors' remuneration	<u>5,024</u>	<u>6,698</u>

- * The amount of forfeited pension scheme contributions available at the current and prior year ends to reduce contributions in future years is not material.

Notes to Financial Statements (Cont'd)

31 December 2000

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

- (a) Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows (Cont'd):

The remuneration of the Directors fell within the following bands:

	Number of directors	
	2000	1999
HK\$Nil – HK\$1,000,000	16	10
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	–	1
	<u>17</u>	<u>12</u>

Yu Ziquan, Zhang Muhan, Chong Chi Wah, Ho Lam Lai Ping, Theresa, Lau Chi Sing, Cheung Sing Tai and Wat Kam Hang, Directors, waived the director's fee for the second half-year of 2000. Save for that, there was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

- (b) The five highest paid employees of the Group during the year included three (1999: five) Directors, details of whose remuneration are set out above. The remaining two individuals were former Directors who resigned during the year and remains as employees of the Group (1999: Nil), details of whose remuneration while as directors are included in note 7(a) above. The details of the remuneration of the abovesaid former Directors for the whole year are as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries, allowances and benefits in kind	2,985	–
Bonuses paid and payable	–	–
Pension scheme contribution	–	–
	<u>2,985</u>	<u>–</u>

The remuneration of the above two individuals fell within the bands of HK\$Nil – HK\$1,000,000 and HK\$2,000,001 – HK\$2,500,000, respectively.



Notes to Financial Statements *(Cont'd)*

31 December 2000

8. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss of the Group from ordinary activities attributable to shareholders included a loss in the financial statements of the Company of HK\$76,544,000 (1999: profit of HK\$25,872,000).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$84,550,000 (1999: HK\$65,117,000), and the weighted average of 524,154,000 (1999: 524,154,000) ordinary shares in issue during the year.

No diluted loss per share is presented for the years ended 31 December 2000 and 1999 as the dilution effect from the exercise of share options of the Company is anti-dilutive.

Notes to Financial Statements (Cont'd)

31 December 2000

10. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Investment properties HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Electronic equipment HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	151,823	27,320	11,915	117,017	2,177	14,475	5,506	8,791	339,024
Additions	692	-	440	10,795	180	738	76	15,677	28,598
Disposals	(418)	-	-	(9,967)	(16)	(945)	(125)	-	(11,471)
Reclassifications	4,037	-	-	11,187	249	250	-	(15,723)	-
Deficit on revaluation, net	(4,430)	(4,740)	-	-	-	-	-	-	(9,170)
Written back on revaluation	(5,869)	-	-	-	-	-	-	-	(5,869)
Exchange realignment	(1,105)	-	(65)	(1,419)	(27)	(127)	(7)	(108)	(2,858)
At 31 December 2000	144,730	22,580	12,290	127,613	2,563	14,391	5,450	8,637	338,254
Analysis of cost or valuation:									
At cost	-	-	12,290	127,613	2,563	14,391	5,450	8,637	170,944
At 2000 valuation	144,730	22,580	-	-	-	-	-	-	167,310
	144,730	22,580	12,290	127,613	2,563	14,391	5,450	8,637	338,254
Accumulated depreciation:									
At beginning of year	-	-	2,439	53,903	1,092	9,488	2,985	-	69,907
Provided for the year	6,205	-	1,085	10,977	339	1,584	834	-	21,024
Written back on disposal	(35)	-	-	(2,655)	(11)	(728)	(110)	-	(3,539)
Written back on revaluation	(5,869)	-	-	-	-	-	-	-	(5,869)
Exchange realignment	(301)	-	(13)	(661)	(13)	(77)	(5)	-	(1,070)
At 31 December 2000	-	-	3,511	61,564	1,407	10,267	3,704	-	80,453
Net book value:									
At 31 December 2000	144,730	22,580	8,779	66,049	1,156	4,124	1,746	8,637	257,801
At 31 December 1999	151,823	27,320	9,476	63,114	1,085	4,987	2,521	8,791	269,117

Notes to Financial Statements (Cont'd)

31 December 2000

10. FIXED ASSETS (Cont'd)

Company

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:				
At beginning of year	16,700	1,219	2,109	20,028
Additions	–	–	7	7
Disposals	–	–	(2)	(2)
Deficit on revaluation	(930)	–	–	(930)
Written back on revaluation	(300)	–	–	(300)
At 31 December 2000	15,470	1,219	2,114	18,803
Analysis of cost or valuation:				
At cost	–	1,219	2,114	3,333
At 2000 valuation	15,470	–	–	15,470
At 31 December 2000	15,470	1,219	2,114	18,803
Accumulated depreciation:				
At beginning of year	–	110	968	1,078
Provided for the year	300	48	422	770
Written back on disposal	–	–	(1)	(1)
Written back on revaluation	(300)	–	–	(300)
At 31 December 2000	–	158	1,389	1,547
Net book value:				
At 31 December 2000	15,470	1,061	725	17,256
At 31 December 1999	16,700	1,109	1,141	18,950

Notes to Financial Statements (Cont'd)

31 December 2000

10. FIXED ASSETS (Cont'd)

The net book value of leasehold land and buildings and investment properties comprised:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term leases in Hong Kong	29,030	32,140	15,470	16,700
Medium term leases				
in Hong Kong	15,170	19,070	–	–
Medium term leases				
in Mainland China	123,110	127,933	–	–
At 31 December	<u>167,310</u>	<u>179,143</u>	<u>15,470</u>	<u>16,700</u>

The above leasehold land and buildings and investment properties were revalued by an independent professional valuer, RHL Appraisal Ltd., on an open market basis, based on their existing use, at 31 December 2000.

A deficit of HK\$5,681,000 and a surplus of HK\$1,251,000 arising from this revaluation in respect of leasehold land and buildings have been charged to the profit and loss account and credited to property revaluation reserve, respectively.

A deficit of HK\$4,740,000 arising from this revaluation in respect of investment properties has been charged to the profit and loss account.

Had the leasehold land and buildings of the Group and the Company been carried at historical cost less accumulated depreciation, their carrying values as at 31 December 2000 would have been HK\$138,958,000 (1999: HK\$141,621,000) and HK\$32,003,000 (1999: HK\$32,303,000), respectively.

At 31 December 2000, an amount of HK\$7,000,000 (1999: HK\$20,800,000) included in investment properties of the Group is in respect of leasehold properties situated in Mainland China and the Group for which the land use right certificates are in the process of being obtained.

Notes to Financial Statements (Cont'd)

31 December 2000

11. TRADEMARKS

Group

HK\$'000

At cost:

At 1 January 2000	40,000
Impairment losses	(26,000)

At 31 December 2000	14,000
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Accumulated amortisation:

At 1 January 2000	5,000
Provided for the year	2,000

At 31 December 2000	7,000
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Net book value:

At 31 December 2000	7,000
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At 31 December 1999	35,000
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12. INTERESTS IN SUBSIDIARIES

Company

2000 1999
HK\$'000 HK\$'000

Unlisted investments, at cost	418,170	405,473
Due from subsidiaries	214,244	230,679
Due to subsidiaries	(2,540)	–

	629,874	636,152
Less: provision for diminutions in values	(82,697)	–

	547,177	636,152
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Notes to Financial Statements (Cont'd)

31 December 2000

12. INTERESTS IN SUBSIDIARIES (Cont'd)

The amounts due from subsidiaries are unsecured and interest-free, except for loans of HK\$20,573,000 in total, which bear interest at 8.5% per annum, and have no fixed terms of repayment.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the Company's subsidiaries at 31 December 2000 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Chapel Hill Developments Limited	British Virgin Islands	US\$1	–	100%	Holder of trademarks
Crown South (Hong Kong) Limited ("Crown South")	Hong Kong	HK\$2	–	100%	Sale of leather ware products
Gastor Enterprises Limited ("Gastor")	British Virgin Islands	US\$150	100%	–	Investment holding
Gold Star Assets Limited	Hong Kong	HK\$2	100%	–	Property investment
Guangdong Enterprises (North America) Fur Holdings Limited *	Canada	CAD10,000	–	100%	Investment holding
Guangdong Tannery (Nominees) Limited	Hong Kong	HK\$2	100%	–	Nominee services
Harbour Hill International Limited	Hong Kong	HK\$1,000,000	100%	–	Import and export trade
Jadeford Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding

Notes to Financial Statements (Cont'd)

31 December 2000

12. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Kwok Wing (Hong Kong) Leather Ware Company Limited	Hong Kong	HK\$2	–	100%	Investment holding
Nanhai Tannery & Leather Products Co Ltd. #	Mainland China	US\$8,000,000	100%	–	Processing of cowhides and sheep skins and leather trading
Nexus Concepts., LLC. *	United States of America	US\$11,000	–	100%	Sale of leather garments
Prized Time Limited	British Virgin Islands/ Mainland China	US\$2	100%	–	Property investment
Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Nanhai Tannery") #	Mainland China	US\$2,500,000 (Note a)	100%	–	Processing of cowhides and leather trading
Sun Po (Hong Kong) Leather Ware Company Limited	Hong Kong	HK\$2	–	100%	Property investment
Time Wise Profits Limited	British Virgin Islands	US\$1	100%	–	Import and export trade
Vermont Property Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Xuzhou Gangwei Colour Package Co., Ltd. ("Xuzhou Gangwei") #	Mainland China	RMB50,000,000 (Note b)	100%	–	Manufacture and sale of packaging materials
Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Nanhai") #	Mainland China	US\$5,000,000 (Note c)	100%	–	Processing of cowhides and leather trading

Notes to Financial Statements (Cont'd)

31 December 2000

12. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
番禺國穎皮具手袋有限公司 (「國穎皮具」)+	Mainland China	HK\$5,650,000 (Note e)	–	100%	Manufacture and sale of leather ware products
Alpha Universal Limited (“Alpha”)	British Virgin Islands	US\$10	60%	–	Investment holding
Fonno International Industrial Limited (“Fonno”)	Hong Kong	HK\$2	–	60%	Sale of leather ware products
番禺協聯皮具有限公司 (「協聯皮具」)#	Mainland China	US\$780,000 (Note d)	–	60%	Manufacture and sale of leather ware products

Sino-foreign co-operative joint venture

+ Wholly foreign-owned enterprise

* These companies are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

Notes:

- (a) The registered capital of Qingdao Nanhai Tannery was solely contributed by the Company. The Company is entitled to all the distributable profits of Qingdao Nanhai Tannery after the payment of an agreed annual fee to the PRC joint venture partner. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with the Company.
- (b) The registered capital of Xuzhou Gangwei is RMB50 million, of which the Company has contributed RMB27 million. The Company is entitled to all the distributable profits of Xuzhou Gangwei after the payment of an agreed annual fee to the PRC joint venture partner. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with the Company. Accordingly, Xuzhou Gangwei has been accounted for as if it is a wholly-owned subsidiary of the Company, except that the assets contributed by the PRC joint venture partner are not included in the net tangible assets of the Group.

Notes to Financial Statements (Cont'd)

31 December 2000

12. INTERESTS IN SUBSIDIARIES (Cont'd)

Notes (cont'd):

- (c) The registered capital of Xuzhou Nanhai is US\$5 million, of which the Company has contributed US\$3 million. Any subsequent increase in capital of and investment in Xuzhou Nanhai will be solely contributed by the Company and it is entitled to all the distributable profits of Xuzhou Nanhai after the payment of an agreed annual fee to the PRC joint venture partner. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with the Company. Accordingly, Xuzhou Nanhai has been accounted for as if it is a wholly-owned subsidiary of the Company, except that the assets contributed by the PRC joint venture partner are not included in the net tangible assets of the Group.
- (d) The registered capital of 協聯皮具 is US\$780,000, of which Fonno has contributed US\$625,000. Fonno is entitled to all the distributable profits of 協聯皮具 after the payment of an agreed annual fee to the PRC joint venture partner. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with Fonno. Accordingly, 協聯皮具 has been accounted for as if it is a wholly-owned subsidiary of Fonno, except that the assets contributed by the PRC joint venture partner are not included in the net tangible assets of the Group.
- (e) 國穎皮具 is a wholly foreign-owned enterprise established in Mainland China with a registered capital verified by PRC auditors of HK\$5,650,000 and is wholly owned by the Company indirectly.

13. INTERESTS IN ASSOCIATES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	1,068	2,033
Due from associates	26,037	29,733
Due to an associate	(33)	(2,048)
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	27,072	29,718
Less: provision against loans to an associate	(18,767)	—
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	8,305	29,718
	<hr/>	<hr/>

Notes to Financial Statements (Cont'd)

31 December 2000

13. INTERESTS IN ASSOCIATES (Cont'd)

Included in the amounts due from associates are unsecured loans of HK\$18,767,000, which bear interest at rates ranging from 6% per annum to 7.25% per annum and are repayable on demand. The remaining portion of amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

The amount due to an associate is unsecured, interest-free and has no fixed terms of repayment.

Details of the Group's associates, which are corporates, at 31 December 2000 were as follows:

Name	Place of incorporation/ operations	Issued share capital	Percentage of nominal value of issued ordinary share capital held by the Group	Principal activities
Essential Holdings Limited	British Virgin Islands	US\$100	32%	Investment holding
Hennessy International Group, Inc.	United States of America	US\$30	33⅓%	Trading of furs, leather and other outerwear
Universal Traders Limited	Hong Kong	HK\$96,000	33⅓%	Dormant

14. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	74,894	67,164
Work in progress	70,129	93,329
Finished goods	66,288	58,996
	<u>211,311</u>	<u>219,489</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$42,769,000 (1999: HK\$9,294,000).

Notes to Financial Statements (Cont'd)

31 December 2000

15. TRADE RECEIVABLES

As at 31 December 2000, the ageing analysis of the Group's trade receivables was as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Within 3 months	84,336	137,455
More than 3 months and less than 6 months	22,930	9,964
More than 6 months and less than 1 year	6,837	6,935
More than 1 year	17,256	16,793
	<hr/>	<hr/>
	131,359	171,147
Less: provisions for doubtful debts	(68,601)	(20,230)
	<hr/>	<hr/>
	<u>62,758</u>	<u>150,917</u>

Credit terms

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to two to three months. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

Notes to Financial Statements (Cont'd)

31 December 2000

16. OTHER RECEIVABLES

	Notes	Group		Company	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Prepayments, deposits and other debtors		14,154	10,761	999	841
Loans to officers	20	2,707	3,440	2,707	2,806
Due from PRC joint venture partners	21	5,114	8,128	–	–
Due from a minority shareholder of a subsidiary	22	–	1,161	–	–
		<u>21,975</u>	<u>23,490</u>	<u>3,706</u>	<u>3,647</u>

17. CASH AND BANK BALANCES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and cash equivalents	111,825	151,371	37,762	23,852
Pledged bank deposits*	39,139	11,953	–	–
	<u>150,964</u>	<u>163,324</u>	<u>37,762</u>	<u>23,852</u>

* These deposits are pledged to banks for letters of credit facilities granted.

Pursuant to the TOA, the Group shall retain cash and bank balances, from time to time, in a working capital reserve of up to HK\$80 million, a reserve equal to a limit available from trade facilities granted by a bank of HK\$25 million and a capital expenditure reserve of up to HK\$10 million which are applied in the Group's operations. The remaining portion of cash and bank balances will be applied in, amongst other things, the payment of interest and repayment of bank borrowings.

Notes to Financial Statements (Cont'd)

31 December 2000

18. TRADE AND BILLS PAYABLE

As at 31 December 2000, the ageing analysis of the Group's trade payables and bills payable was as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Within 3 months	45,390	62,854
More than 3 months and less than 6 months	1,261	1,755
More than 6 months and less than 1 year	388	100
More than 1 year	578	468
	<u>47,617</u>	<u>65,177</u>

19. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Accruals and other liabilities		28,748	24,479	999	1,155
Due to PRC joint venture partners	21	1,852	2,285	–	–
Due to a minority shareholder of a subsidiary	22	808	813	–	–
Due to immediate holding company	23	–	217	–	–
		<u>31,408</u>	<u>27,794</u>	<u>999</u>	<u>1,155</u>

Notes to Financial Statements (Cont'd)

31 December 2000

20. LOANS TO OFFICERS

Loans to officers, disclosed pursuant to Section 161B of the Companies Ordinance, are as follows:

Name	Terms of loans	Group		Company		Maximum amount outstanding during the year
		31/12/2000	1/1/2000	31/12/2000	1/1/2000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gain Champion Limited (Note 1)	Secured by a property, bears interest at 5% per annum and is repayable by monthly instalments	1,609	1,669	1,609	1,669	1,669
Ko Chun-hsiung (Note 2)	Unsecured and non-interest bearing. RMB600,000 of the loan is repayable by eight instalments commencing from July 1997 on a half year basis, and the balance of RMB400,000 will be repayable upon termination of the service agreement	–	634	–	–	634
Chan Miu Ting (Company Secretary)	Secured by a property, bears interest at 5% per annum and is repayable by monthly instalments	1,098	1,137	1,098	1,137	1,137
		<u>2,707</u>	<u>3,440</u>	<u>2,707</u>	<u>2,806</u>	

Notes:

1. A Director of the Company, Mr. Chong Chi Wah, has a controlling interest in Gain Champion Limited. The loan is a staff housing loan used by the borrower to purchase a flat as his main residence.
2. Mr. Ko Chun-hsiung resigned as a Director of the Company on 5 July 2000 when the Group had amounts due from him of HK\$557,000 which has been reclassified to other debtors.