

Notes to the Accounts

1 Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain leasehold land and buildings are stated at valuation.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are, unless otherwise stated, effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
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

2 Principal accounting policies

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

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are companies in which the Company, directly or indirectly, controls more than half of the voting power or controls the composition of the boards of directors.

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.

Notes to the Accounts

2 Principal accounting policies (Continued)

(a) Consolidation (Continued)

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at cost or valuation. Valuation is determined by the Directors based on independent valuations which are performed on a regular basis and less accumulated depreciation. In the intervening years, the Directors review the carrying value of the leasehold land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the properties 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%.

(ii) Other fixed assets

Other fixed assets, comprising plant and machinery, furniture and fixtures, motor vehicles and moulds are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

Improvements are capitalised and depreciated over their expected useful lives to the Group.

Notes to the Accounts

2 Principal accounting policies (Continued)

(b) Fixed assets (Continued)

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in leasehold land and buildings and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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.

(c) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in the long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

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

Notes to the Accounts

2 Principal accounting policies (Continued)

(c) Assets under leases (Continued)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st January 2001 is amortised using the straight-line method over 5 years.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

Where an indication of impairment exists, the carrying amount of any intangible assets, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(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.

Notes to the Accounts

2 Principal accounting policies (Continued)

(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) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and trust receipt loans with maturities not exceeding three months.

(h) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Accounts

2 Principal accounting policies (Continued)

(j) 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.

(k) 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 balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(l) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

(m) 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.

Notes to the Accounts

2 Principal accounting policies (Continued)

(n) 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.

(o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of inventories and receivables. Capital expenditure comprises additions to goodwill (note 13) and fixed assets (note 14), including additions resulting from acquisitions through purchases of subsidiaries (notes 13, 14 and 24).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

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:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sales of manufactured goods	255,711	287,854
Subcontracting fee income	5,772	36,208
Trading of raw materials	86,868	77,777
	<u>348,351</u>	<u>401,839</u>
Other revenue		
Interest income	<u>1,142</u>	<u>1,243</u>
Total revenues	<u>349,493</u>	<u>403,082</u>

Primary reporting format - business segments

The Group is organised into three main business segments:

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

Subcontracting fee income - provision of subcontracting services

Trading of raw materials - trading of handbag related raw materials

There are no sales or other transactions between the business segments.

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 People's Republic of China (the "PRC") - raw materials trading

Asia region except PRC - subcontracting fee income and sales of manufactured goods.

There are no sales between the geographical segments.

Notes to the Accounts

3 Turnover, revenue and segment information (Continued)

Primary reporting format - business segments

	Sales of manufactured goods 2001 HK\$'000	Subcontracting fee income 2001 HK\$'000	Trading of raw materials 2001 HK\$'000	Group 2001 HK\$'000
Turnover	255,711	5,772	86,868	348,351
Segment results	37,514	2,252	3,112	42,878
Interest income				1,142
Unallocated costs				(23,144)
Operating profit				20,876
Finance costs				(5,601)
Profit before taxation				15,275
Taxation				(1,606)
Profit attributable to shareholders				13,669
Segment assets	57,980	—	11,876	69,856
Goodwill				296
Unallocated assets				74,073
Total assets				144,225
Total liabilities				78,635
Capital expenditure				32,884
Depreciation				6,146
Amortisation charge				74

Notes to the Accounts

3 Turnover, revenue and segment information (Continued)

Primary reporting format - business segments (Continued)

	Sales of manufactured goods 2000 HK\$'000	Subcontracting fee income 2000 HK\$'000	Trading of raw materials 2000 HK\$'000	Group 2000 HK\$'000
Turnover	287,854	36,208	77,777	401,839
Segment results	61,653	17,338	1,655	80,646
Interest income				1,243
Unallocated costs				(35,224)
Operating profit				46,665
Finance costs				(7,012)
Profit before taxation				39,653
Taxation				(5,545)
Profit after taxation				34,108
Minority interests				(1,290)
Profit attributable to shareholders				32,818
Segment assets	56,034	2,701	11,326	70,061
Unallocated assets				58,979
Total assets				129,040
Total liabilities				103,793
Capital expenditure				10,091
Depreciation				5,212

Notes to the Accounts

3 Turnover, revenue and segment information (Continued)

Secondary reporting format - geographical segments

	Turnover	Segment result	Total assets	Capital expenditure
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of America	153,824	21,496	—	—
Europe	97,430	15,304	—	—
PRC	50,344	1,158	64,668	12,872
The Kingdom of Cambodia ("Cambodia")	—	—	20,377	18,314
Asia region except PRC	46,753	4,920	58,884	1,698
	<u>348,351</u>	<u>42,878</u>	<u>143,929</u>	<u>32,884</u>
Interest income		1,142		
Unallocated costs		(23,144)		
Operating profit		20,876		
Finance costs		(5,601)		
Profit before taxation		15,275		
Taxation		(1,606)		
Profit attributable to shareholders		<u>13,669</u>		
Goodwill			296	
Total assets			<u>144,225</u>	

Notes to the Accounts

3 Turnover, revenue and segment information (Continued)

Secondary reporting format - geographical segments (Continued)

	Turnover	Segment	Total	Capital
	2000	result	assets	expenditure
	2000	2000	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of America	159,787	34,221	—	—
Europe	117,314	25,555	—	—
PRC	77,777	1,677	63,453	9,850
Asia region except PRC	46,961	19,193	65,587	241
	<u>401,839</u>	<u>80,646</u>	<u>129,040</u>	<u>10,091</u>
Interest income		1,243		
Unallocated costs		(35,224)		
Operating profit		46,665		
Finance costs		(7,012)		
Profit before taxation		39,653		
Taxation		(5,545)		
Profit after taxation		34,108		
Minority interests		(1,290)		
Profit attributable to shareholders		<u>32,818</u>		

Notes to the Accounts

4 Operating profit

Operating profit is stated after charging the following:

	2001 HK\$'000	2000 HK\$'000
Deficit on revaluation of fixed assets not covered by previous surpluses	—	5,851
Depreciation:		
Owned fixed assets	5,920	4,986
Leased fixed assets	226	226
Staff costs (including directors' remuneration, note 11)	24,582	22,285
Cost of inventories	262,211	277,106
Retirement benefit costs (note 10)	419	120
Auditors' remuneration	570	520
Net exchange losses	328	372
Amortisation of goodwill (included in administrative expenses, note 13)	74	—
Operating leases on land and buildings	264	44
	<u> </u>	<u> </u>

5 Finance costs

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and overdrafts, wholly repayable within five years	5,542	6,953
Interest element of finance leases	59	59
	<u> </u>	<u> </u>
	5,601	7,012
	<u> </u>	<u> </u>

Notes to the Accounts

6 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 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:

	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax		
Current	1,182	3,669
Overprovision in prior years	(182)	—
Overseas taxation		
Current	606	3,879
Overprovision in prior years	—	(2,003)
	<u>1,606</u>	<u>5,545</u>

There is no material unprovided deferred taxation for the year.

7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$5,117,000 (2000: HK\$Nil).

8 Dividends

	2001 HK\$'000	2000 HK\$'000
Interim, paid, of HK\$0.025 (2000: HK\$Nil) per ordinary share	<u>5,000</u>	<u>—</u>

No final dividend is proposed.

Notes to the Accounts

9 Earnings per share

The calculation of earnings per share is based on the Group’s profit attributable to shareholders of HK\$13,669,000 (2000: HK\$32,818,000).

The basic earnings per share is based on the weighted average of 198,356,000 (2000: 160,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31st December 2001 and 2000 respectively was not disclosed as there were no dilutive potential ordinary shares.

10 Retirement benefits schemes

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

	2001 HK\$'000	2000 HK\$'000
Total contributions during the year ended 31st December		
- to the MPF Scheme	234	15
- to the PRC retirement scheme	185	105
	<u>419</u>	<u>120</u>

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:

	2001 HK\$'000	2000 HK\$'000
Fees		
Executive Directors	—	—
Non-executive Directors	60	—
Basic salaries and other allowances	2,476	1,624
Contributions to pensions schemes for directors	60	5
Discretionary bonuses	—	1,000
	<u>2,596</u>	<u>2,629</u>

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2001	2000
HK\$Nil - HK\$1,000,000	7	7
HK\$1,500,001 - HK\$2,000,000	—	1
	<u>7</u>	<u>8</u>

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 (2000: 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 four (2000: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining (2000: two) individual during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries and other allowances	261	445
Pensions	12	2
	<u>273</u>	<u>447</u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2001	2000
HK\$Nil - HK\$1,000,000	<u>1</u>	<u>2</u>

Notes to the Accounts

12 Application of net proceeds from initial public offering (“IPO”)

In the 2000 annual report, it was disclosed that the Group had entered into an agreement in February 2001 (the “Agreement”) in connection with the acquisition of land and construction of a new factory in Hui Zhou at a total consideration of HK\$25,759,000. During 2001 amounts totalling HK\$20,800,000 (the “Payments”) were paid under the terms of the Agreement.

On 7th November 2001, the Group announced the change of application of net IPO proceeds under the Agreement to the acquisition of a factory in Cambodia (“Cambodia factory”) amounting to HK\$7,000,000.

The Payments made were allocated as follows:

	Fixed assets HK\$'000	Goodwill HK\$'000	Other receivables HK\$'000	Total HK\$'000
Purchase consideration of the Cambodia factory (as announced on 7th November 2001)	6,630	370	—	7,000
Renovation work of the Cambodia factory	6,430	—	—	6,430
Renovation work of a leather factory in Hui Zhou	550	—	—	550
Construction of a silk screening factory in Hui Zhou	1,240	—	—	1,240
Construction of a warehouse in Hui Zhou	700	—	—	700
Construction of a carton packing factory in Hui Zhou	1,400	—	—	1,400
	10,320	—	—	10,320
The balance	—	—	3,480	3,480
	<u>16,950</u>	<u>370</u>	<u>3,480</u>	<u>20,800</u>

13 Goodwill

	2001 HK\$'000	2000 HK\$'000
Acquisition of a subsidiary (note 24(c))	370	—
Amortisation charge (note 4)	(74)	—
At 31st December	<u>296</u>	<u>—</u>

Notes to the Accounts

14 Fixed assets

	Group					
	Land and buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Moulds	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation						
At 1st January 2001	13,500	12,984	11,646	1,543	1,762	41,435
Exchange adjustment	80	67	76	4	9	236
Acquisition of a subsidiary	6,630	—	—	—	—	6,630
Additions	—	9,275	15,999	410	200	25,884
At 31st December 2001	<u>20,210</u>	<u>22,326</u>	<u>27,721</u>	<u>1,957</u>	<u>1,971</u>	<u>74,185</u>
Accumulated depreciation						
At 1st January 2001	—	9,100	6,340	554	1,342	17,336
Exchange adjustment	—	48	30	1	6	85
Charge for the year	<u>543</u>	<u>2,308</u>	<u>2,585</u>	<u>399</u>	<u>311</u>	<u>6,146</u>
At 31st December 2001	<u>543</u>	<u>11,456</u>	<u>8,955</u>	<u>954</u>	<u>1,659</u>	<u>23,567</u>
Net book value:						
At 31st December 2001	<u>19,667</u>	<u>10,870</u>	<u>18,766</u>	<u>1,003</u>	<u>312</u>	<u>50,618</u>
At 31st December 2000	<u>13,500</u>	<u>3,884</u>	<u>5,306</u>	<u>989</u>	<u>420</u>	<u>24,099</u>
The analysis of the cost or valuation at 31st December 2001 of the above assets is as follows:						
At cost	6,630	22,326	27,721	1,957	1,971	60,605
At 2000 valuation	<u>13,580</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,580</u>
	<u>20,210</u>	<u>22,326</u>	<u>27,721</u>	<u>1,957</u>	<u>1,971</u>	<u>74,185</u>
The analysis of the cost or valuation at 31st December 2000 of the above assets is as follows:						
At cost	—	12,984	11,646	1,543	1,762	27,935
At 2000 valuation	<u>13,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,500</u>
	<u>13,500</u>	<u>12,984</u>	<u>11,646</u>	<u>1,543</u>	<u>1,762</u>	<u>41,435</u>

Notes to the Accounts

14 Fixed assets (Continued)

- (a) The Group's interests in land and buildings at their net book values are analysed as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	4,802	4,900
Outside Hong Kong, held on:		
Leases of over 50 years	6,619	—
Leases of between 10 to 50 years	8,246	8,600
	19,667	13,500

The land and buildings with leases of between 10 to 50 years were revalued on an open market value basis as at 4th January 2001 by Chesterton Petty Limited, an independent firm of professional valuers.

- (b) The carrying amount of the land and buildings would have been HK\$18,213,000 (2000: HK\$18,945,000) had they been stated at cost less accumulated depreciation.
- (c) At 31st December 2001, the net book value of motor vehicles held by the Group under finance leases amounted to HK\$451,000 (2000: HK\$676,000).
- (d) At 31st December 2001, the net book value of fixed assets pledged as security for the Group's long-term loans amounted to HK\$4,802,000 (2000: HK\$4,900,000) (note 25).

15 Investment in subsidiaries

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted investments, at cost (note a)	16,000	16,000
Amounts due from subsidiaries (note b)	31,545	—
	47,545	16,000

Notes to the Accounts

15 Investment in subsidiaries (Continued)

(a) The following is a list of the principal subsidiaries at 31st December 2001:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/registered capital	Interest held	
				2001	2000
Direct interest:					
Glory Access Limited	British Virgin Islands ("BVI")	Investment holding in BVI	2,051,282 ordinary shares of US\$1 each	100%	100%
Indirect interest:					
Midland Management Limited	BVI	Provision of sub-contracting services and trading of raw materials in Macau	12,902 ordinary shares of US\$1 each	100%	100%
Wallmark Enterprise Company Limited	Hong Kong	Trading of handbag products and related accessories and raw materials in Hong Kong	180,500 ordinary shares of HK\$100	100%	100%
惠州和寶黃氏手袋有限公司 Hui Zhou Wallmark Handbags Co., Ltd.*#	PRC	Manufacturing of handbag products and related accessories in the PRC	Registered capital HK\$10,000,000	100%	100%
惠州黃氏皮具有限公司 Wallmark Leather Products Co., Ltd.*#	PRC	Manufacturing of handbag products and related accessories in the PRC	Registered capital HK\$500,000	100%	—

Notes to the Accounts

15 Investment in subsidiaries (Continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/registered capital	Interest held	
				2001	2000
Kimberly Industrial Co., Ltd.* (subsequently renamed as "Wallmark Enterprise (Cambodia) Ltd.")	Cambodia	Manufacturing of handbag products and related accessories in Cambodia	1,000 ordinary shares of US\$850 each	100%	—

+ For identification purposes only

* Not audited by PricewaterhouseCoopers, Hong Kong

Foreign investment enterprise

(b) Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

16 Inventories

	Group	
	2001	2000
	HK\$'000	HK\$'000
Finished goods	11,868	6,710
Work in progress	674	523
Raw materials	14,599	20,885
	<u>27,141</u>	<u>28,118</u>

At 31st December 2001, no inventories were carried at net realisable value (2000: HK\$Nil).

Notes to the Accounts

17 Trade and other receivables

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables	42,715	41,942	—	—
Prepayment, deposits and other receivables	3,947	4,076	34	3,365
	<u>46,662</u>	<u>46,018</u>	<u>34</u>	<u>3,365</u>

At 31st December 2001, the ageing analysis of the trade receivables was as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current to 30 days	21,646	28,916
31-60 days	12,219	10,783
61-90 days	6,058	1,574
Over 90 days	2,792	669
	<u>42,715</u>	<u>41,942</u>

Customers are generally granted credit terms of 30 to 60 days.

18 Amount due to a subsidiary

The amount due to a subsidiary was unsecured, interest free and had no fixed terms of repayment.

19 Bank balances and cash

Included in bank balances and cash of the Group as at 31st December 2001, amounts totalling HK\$1,687,000 (2000: HK\$4,244,000) were held by subsidiaries in the PRC and the remittance of these funds out of PRC is subject to exchange control regulation.

Notes to the Accounts

20 Trade and other payables

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade and bill payables	8,119	14,193
Other payables	11,382	13,078
	<u>19,501</u>	<u>27,271</u>

At 31st December 2001, the ageing analysis of the trade payables was as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current to 30 days	4,810	4,391
31-60 days	2,043	6,791
61-90 days	1,043	2,906
Over 90 days	223	105
	<u>8,119</u>	<u>14,193</u>

Notes to the Accounts

21 Share capital

	Company	
	2001	2000
	HK\$'000	HK\$'000
<i>Authorised</i>		
1,000,000,000 ordinary shares of HK\$0.1 each	100,000	100,000
	<hr/>	<hr/>
	Issued and fully paid	
	Ordinary	
	shares of	
	HK\$0.1 each	HK\$'000
At 1st January 2001	160,000,000	16,000
Issue of shares	40,000,000	4,000
	<hr/>	<hr/>
At 31st December 2001	200,000,000	20,000
	<hr/>	<hr/>

On 16th January 2001, 40,000,000 shares of HK\$0.1 each of the Company were issued at the subscription price of HK\$1.00 per share pursuant to a public offer and placing of shares.

Notes to the Accounts

22 Reserves

	Properties		Group				Total
	Share premium	revaluation reserve	Merger reserve	Statutory reserves	Exchange difference	Retained earnings	
	HK\$'000	HK\$'000	(note a) HK\$'000	(note b) HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2000	—	—	2,150	—	—	18,208	20,358
Transfer	—	—	—	2,223	—	(2,223)	—
Surplus on revaluation	—	406	—	—	—	—	406
Goodwill written off	—	—	—	—	—	(1,975)	(1,975)
Profit for the year	—	—	—	—	—	32,818	32,818
2000 interim dividends paid (note 24(d))	—	—	—	—	—	(42,360)	(42,360)
At 31st December 2000	—	406	2,150	2,223	—	4,468	9,247
At 1st January 2001	—	406	2,150	2,223	—	4,468	9,247
Premium on issue of shares	36,000	—	—	—	—	—	36,000
Share issue expenses	(8,355)	—	—	—	—	—	(8,355)
Exchange differences	—	—	—	—	29	—	29
Profit for the year	—	—	—	—	—	13,669	13,669
2001 interim dividends paid (note 8)	—	—	—	—	—	(5,000)	(5,000)
At 31st December 2001	27,645	406	2,150	2,223	29	13,137	45,590

Notes to the Accounts

22 Reserves (Continued)

	Share premium HK\$'000	Company Retained earnings HK\$'000	Total HK\$'000
At 1st January 2000 and 2001	—	—	—
Premium on issue of shares	36,000	—	36,000
Share issue expenses	(8,355)	—	(8,355)
Profit for the year	—	5,117	5,117
Interim dividends paid (note 8)	—	(5,000)	(5,000)
	<hr/>	<hr/>	<hr/>
At 31st December 2001	27,645	117	27,762
	<hr/>	<hr/>	<hr/>

- (a) The merger reserve of the Group represents the difference between the nominal value of the shares issued and the nominal value of shares of the subsidiaries acquired pursuant to the Reorganisation on 29th December 2000.
- (b) Statutory reserves comprise enterprise expansion and general reserve funds which represent funds set up by the subsidiary company established and operating in the PRC and form part of the shareholders' funds. According to the relevant PRC regulations, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital.

23 Long-term liabilities

	Group	
	2001 HK\$'000	2000 HK\$'000
Wholly repayable within five years		
Bank loans - secured	11,811	887
Obligations under finance leases	293	513
	<hr/>	<hr/>
	12,104	1,400
Current portion of long-term liabilities	(12,031)	(780)
	<hr/>	<hr/>
	73	620
	<hr/>	<hr/>

Notes to the Accounts

23 Long-term liabilities (Continued)

At 31st December 2001, the present value of finance lease liabilities and the Group's bank loans were repayable as follows:

	Secured bank loans		Obligations under finance leases	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	11,811	560	220	220
In the second year	—	327	73	220
In the third to fifth year	—	—	—	73
	<u>11,811</u>	<u>887</u>	<u>293</u>	<u>513</u>

At 31st December 2001, the Group's finance lease liabilities were repayable as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	279	279
In the second year	94	279
In the third to fifth year	—	94
	<u>373</u>	<u>652</u>
Future finance charges on finance leases	<u>(80)</u>	<u>(139)</u>
Present value of finance lease liabilities	<u>293</u>	<u>513</u>

Notes to the Accounts

24 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Operating profit	20,876	46,665
Depreciation of owned fixed assets	5,920	4,986
Depreciation of leased fixed assets	226	226
Amortisation of goodwill	74	—
Revaluation deficit on fixed assets not covered by previous surpluses	—	5,851
Interest income	(1,142)	(1,243)
Decrease/(increase) in inventories	977	(5,013)
Increase in trade and other receivables	(644)	(16,649)
Decrease in amounts due from directors	—	17,063
(Decrease)/increase in trade and other payables	(5,670)	8,213
Net cash inflow from operating activities	<u>20,617</u>	<u>60,099</u>

(b) Analysis of changes in financing during the year

	Share capital including share premium		Bank loans		Obligations under finance leases	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1st January	16,000	16,000	887	2,555	513	733
New shares issued	40,000	—	—	—	—	—
Share issue expenses	(8,355)	—	—	—	—	—
Cash inflows/(outflows) from financing	—	—	10,924	(1,668)	(220)	(220)
At 31st December	<u>47,645</u>	<u>16,000</u>	<u>11,811</u>	<u>887</u>	<u>293</u>	<u>513</u>

Notes to the Accounts

24 Notes to the consolidated cash flow statement (Continued)

(c) Purchase of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Net assets acquired		
Fixed assets	6,630	—
Goodwill	370	—
	<u>7,000</u>	<u>—</u>
Satisfied by		
Cash	7,000	—
	<u>7,000</u>	<u>—</u>

The subsidiary acquired on 1st December 2001 contributed HK\$443,777 to the Group's net operating cash outflows.

- (d) Interim dividends totalling HK\$42,360,000 were paid by the Company's subsidiaries before the Reorganisation to their then shareholders outside the Group in 2000.

25 Banking facilities

The Group had aggregate banking facilities of approximately HK\$199,813,000 as at 31st December 2001 (2000: HK\$116,126,000) in respect of overdrafts, term loans and other trade finance facilities. These facilities were secured by certain land and buildings of the Group (note 14(d)) and fixed deposits of the Group.

Banking facilities utilised at 31st December 2001 amounted to approximately HK\$46,564,000 (2000: HK\$63,529,000).

Notes to the Accounts

26 Contingent liabilities

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	—	—	39,400	—
Bills of exchange discounted with recourse	9,816	—	—	—
	<u>9,816</u>	<u>—</u>	<u>39,400</u>	<u>—</u>

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

27 Commitments

(a) Capital commitments for plant and equipment

	Group	
	2001	2000
	HK\$'000	HK\$'000
Contracted but not provided for	—	420
Authorised but not contracted for	—	330
	<u>—</u>	<u>750</u>

(b) Commitments under operating leases

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Land and buildings		
Not later than one year	348	36
Later than one year and not later than five years	1,139	63
Later than five years	38	—
	<u>1,525</u>	<u>99</u>

Notes to the Accounts

28 Related party transactions

No material related party transactions were entered into by the Group during the year.

29 Ultimate holding company

The directors regard Wisechoice Assets Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company.

30 Approval of accounts

The accounts were approved by the Board of Directors on 24th April 2002.