



Notes to Financial Statements (Cont'd)

31 December 2001

12. FIXED ASSETS (Cont'd)

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

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Long term leases in Hong Kong	23,700	29,030	14,000	15,470
Medium term leases in Hong Kong	6,500	15,170	-	-
Medium term leases in Mainland China	111,753	123,110	-	-
At 31 December	<u>141,953</u>	<u>167,310</u>	<u>14,000</u>	<u>15,470</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 2001.

Deficits of HK\$11,670,000 and HK\$1,448,000 arising from this revaluation in respect of leasehold land and buildings have been charged to the profit and loss account and debited to property revaluation reserve, respectively.

Deficits of HK\$7,499,000 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 been carried at historical cost less accumulated depreciation, their carrying values as at 31 December 2001 would have been HK\$105,356,000 (2000: HK\$138,958,000).

At 31 December 2001, an amount of HK\$3,000,000 (2000: HK\$7,000,000) 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.

Investment properties amounting to HK\$18,650,000 are leased to third parties under operating leases, further summary details of which are included in note 32(a) to the financial statements.



Notes to Financial Statements (Cont'd)

31 December 2001

12. FIXED ASSETS (Cont'd)

Included in the impairment of fixed assets are impairment of HK\$8,559,000 and HK\$4,899,000 which arose as a result of the planned curtailment of operations of a subsidiary (note 28 to the financial statements) and adverse market conditions (note 14 to the financial statements), respectively. The remaining impairment on fixed assets amounting to HK\$5,959,000 was in connection with the loss making businesses relating to leather ware and packaging materials segments.

13. TRADEMARKS

Group

HK\$'000

Cost:

At 1 January 2001:	
As previously reported	14,000
Reclassified to accumulated amortisation and impairment (<i>Note</i>)	26,000
	<hr/>
As restated at 1 January 2001 and at 31 December 2001	40,000
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Accumulated amortisation and impairment:

At 1 January 2001	
As previously reported	7,000
Reclassified of impairment losses from cost (<i>Note</i>)	26,000
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As restated	33,000
Amortisation during the year	1,400
Impairment during the year recognised in the profit and loss account	4,100
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At 31 December 2001	38,500
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Net book value:

At 31 December 2001	1,500
At 31 December 2000	7,000



Notes to Financial Statements *(Cont'd)*

31 December 2001

13. TRADEMARKS (Cont'd)

The trademarks are related to the leather ware products manufactured and sold in Mainland China. During the year ended 31 December 2000, the Group terminated the business relationship with the sole distributor of this product which led to the cessation of this production line and the related trademarks were therefore impaired and provided against to reduce to estimated recoverable amount at 31 December 2000. In addition, the goodwill of HK\$12,478,000 arising from acquisition of a subsidiary related to this product was also impaired and provided against as at 31 December 2000 (note 14 to the financial statements).

During the year, the Group leased the trademarks to an independent third party. Due to the uncertain income stream from receiving royalty fees as a result of the overdue royalty payment, a further impairment was made in the current year.

The impairment loss is determined by the Directors by discounting the expected future cash flows arising from the trademarks at a discount rate of 5%.

Note: Accumulated impairment losses are aggregated with accumulated amortisation under the disclosure requirements of SSAP 29, which was adopted during the year as detailed in note 2 to the financial statements, whereas previously they were disclosed as an adjustment to the cost of the assets. This change has been disclosed as a retrospective reclassification.

14. GOODWILL

As detailed in note 3 to the financial statements, the Group had adopted the transitional provisions of SSAP 30 which permit goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated general reserve fund for impairment. As a result, the Group has recognised an impairment of part of the goodwill previously eliminated against the consolidated general reserve fund of HK\$21,919,000 during the year, as detailed in the table below.



Notes to Financial Statements (Cont'd)

31 December 2001

14. GOODWILL (Cont'd)

The amounts of the goodwill remaining in consolidated general reserve fund, arising from the acquisition of subsidiaries prior to 1 January 2001, are as follows:

Group	Goodwill eliminated against consolidated general reserve fund HK\$'000
Cost:	
At 1 January 2001 and 31 December 2001	<u>167,746</u>
Accumulated impairment:	
At 1 January 2001	12,478
Impairment provided during the year	21,919
At 31 December 2001	<u>34,397</u>
Net amount:	
At 31 December 2001	<u>133,349</u>
At 31 December 2000	<u>155,268</u>

Provision for impairment of goodwill arising from the acquisition of a subsidiary was made during the year ended 31 December 2000 as a result of the termination of business relationship with the sole distributor relating to the leather ware products the subsidiary produced and sold in Mainland China (note 13 to the financial statements for details).

In current year, the retail arm of the Group has suffered from the sluggish retail market in Hong Kong and the Group does not expect a turnaround in the coming years. Hence, a provision for impairment of goodwill of HK\$21,919,000 arising from acquisition of a subsidiary involved in leather ware products distribution was recorded. In addition, fixed assets amounting to HK\$4,899,000 (mainly representing plant and machinery and leasehold improvements) were also impaired and provided for (see note 12).

The impairment loss is determined by the Directors by discounting the expected future cash flows arising from this group of companies at a discount rate of 5%.



Notes to Financial Statements (Cont'd)

31 December 2001

15. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	418,170	418,170
Due from subsidiaries	244,804	214,244
Due to subsidiaries	(1,057)	(2,540)
	661,917	629,874
Less: provision for impairment	(197,660)	(82,697)
	464,257	547,177

The amounts due from subsidiaries are unsecured, interest-free, except for loans of HK\$50,441,000 (2000: HK\$20,573,000) in total, which bear interest at 8.5% (2000: 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.

Particulars of the Company's subsidiaries at 31 December 2001 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\$100	–	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



Notes to Financial Statements (Cont'd)

31 December 2001

15. 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 %
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
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 leather trading
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



Notes to Financial Statements (Cont'd)

31 December 2001

15. 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 %	
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
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.



Notes to Financial Statements (Cont'd)

31 December 2001

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Notes: (Cont'd)

- (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 were 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.
- (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 were 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 were 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 indirectly wholly owned by the Company.

16. INTERESTS IN ASSOCIATES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	907	1,068
Due from associates	26,037	26,037
Due to an associate	-	(33)
	<hr/>	<hr/>
	26,944	27,072
Less: provision for impairment	(26,944)	(18,767)
	<hr/>	<hr/>
	-	8,305
	<hr/>	<hr/>



Notes to Financial Statements (Cont'd)

31 December 2001

16. INTERESTS IN ASSOCIATES (Cont'd)

The provision for impairment of HK\$5,623,000 and HK\$2,554,000 arising from the impairment of leasehold land representing the sole asset of an associate of the Group has been charged to the profit and loss account and debited to property revaluation reserve, respectively.

In prior year, included in amounts due from associates were unsecured loans of HK\$18,767,000, which bore interest at rates ranging from 6% per annum to 7.25% per annum and were repayable on demand. At 31 December 2001, the unsecured loans of HK\$18,767,000 became interest-free and had no fixed terms of repayment. 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 was unsecured, interest-free and was fully repaid during the year.

Particulars of the Group's associates, which are corporates, at 31 December 2001 are 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	33½	Trading of furs, leather and other outerwear

17. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	56,381	74,894
Work in progress	46,267	70,129
Finished goods	78,478	66,288
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	181,126	211,311

The carrying amount of inventories carried at net realisable value included in the above is HK\$41,944,000 (2000: HK\$42,769,000).



Notes to Financial Statements (Cont'd)

31 December 2001

18. TRADE RECEIVABLES

As at 31 December 2001, the ageing analysis of the Group's trade receivables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within 3 months	58,245	84,336
More than 3 months and less than 6 months	250	22,930
More than 6 months and less than 1 year	3,343	6,837
More than 1 year	8,965	17,256
	70,803	131,359
Less: provisions for doubtful debts	(12,595)	(68,601)
	58,208	62,758

Trading terms with customers are mainly 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.

19. OTHER RECEIVABLES

Notes	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Prepayments, deposits and other debtors	9,304	14,154	1,043	999
Loans to officers	23	1,058	2,707	1,058
Due from PRC joint venture partners	24	33	5,114	-
Due from a fellow subsidiary	25	196	-	-
	10,591	21,975	2,101	3,706



Notes to Financial Statements (*Cont'd*)

31 December 2001

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	31,118	110,357	4,593	37,762
Time deposits	84,322	40,607	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	115,440	150,964	4,593	37,762
Less: Pledged time deposits*	(16,671)	(39,139)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents	<u>98,769</u>	<u>111,825</u>	<u>4,593</u>	<u>37,762</u>

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

Pursuant to the TOA, the Group was required to retain cash and cash equivalents and pledged bank deposits, 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 cash equivalents and pledged bank deposits will be applied in, amongst other things, the payment of interest and repayment of bank borrowings.

Subsequent to the balance sheet date, the TOA was terminated by way of full repayment of the non-PRC bank debts prescribed in the TOA, and the above provisions pursuant to the TOA were then released. Further details are disclosed in note 38(a) to the financial statements.



Notes to Financial Statements (*Cont'd*)

31 December 2001

21. TRADE AND BILLS PAYABLES

As at 31 December 2001, the ageing analysis of the Group's trade and bills payables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within 3 months	15,841	45,390
More than 3 months and less than 6 months	2,202	1,261
More than 6 months and less than 1 year	207	388
More than 1 year	216	578
	<hr/> <u>18,466</u>	<hr/> <u>47,617</u>

22. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accruals and other liabilities		28,806	28,748	1,160	999
Due to PRC joint venture partners	24	1,748	1,852	-	-
Due to a minority shareholder of a subsidiary	26	498	808	-	-
		<hr/> <u>31,052</u>	<hr/> <u>31,408</u>	<hr/> <u>1,160</u>	<hr/> <u>999</u>



Notes to Financial Statements (Cont'd)

31 December 2001

23. LOANS TO OFFICERS

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

Name	Terms of loans	Group and Company		Maximum amount outstanding during the year HK\$'000
		31/12/2001 HK\$'000	1/1/2001 HK\$'000	
Gain Champion Limited (Note)	Secured by a property, bore interest at 5% per annum and was fully repaid during the year	–	1,609	1,609
Chan Miu Ting (Company Secretary)	Secured by a property, bears interest at 5% per annum and is repayable by monthly instalments	1,058	1,098	1,098
		<hr/> <hr/> <hr/> 1,058	<hr/> <hr/> <hr/> 2,707	

Note: 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. Mr. Chong Chi Wah resigned as a Director of the Company on 21 May 2001 and the loan was fully repaid upon his resignation.



Notes to Financial Statements *(Cont'd)*

31 December 2001

24. DUE FROM/(TO) PRC JOINT VENTURE PARTNERS

Included in the amounts due from PRC joint venture partners were secured loans of HK\$2,765,000 which bore interest at approximately 7% per annum and were fully repaid during the year. The loans were secured by machinery and equipment of the PRC joint venture partner.

The remaining amounts due from the PRC joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to PRC joint venture partners are unsecured, interest-free and have no fixed terms of repayment.

25. DUE FROM A FELLOW SUBSIDIARY

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

26. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

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



Notes to Financial Statements (*Cont'd*)

31 December 2001

27. BANK BORROWINGS

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank loans:		
Secured	11,080	18,204
Unsecured	149,700	208,291
	<hr/>	<hr/>
	160,780	226,495

The maturities of the above amounts are as follows:

Within one year or on demand	96,763	112,677
In the second year	64,017	44,000
In the third to fifth years, inclusive	-	69,818
	<hr/>	<hr/>
Portion classified as current liabilities	160,780	226,495
	(96,763)	(112,677)
	<hr/>	<hr/>
Long term portion	64,017	113,818

As further detailed in note 1 to the financial statements, on 22 December 2000, these banks and the Group entered into the TOA pursuant to which repayment of the relevant bank borrowings was rescheduled. Accordingly, the bank borrowings as at 31 December 2001 have been reclassified according to the repayment schedule as contained in the TOA.

Included in the non-PRC bank debts prescribed in the TOA is an amount of HK\$8,986,000 representing the portion held by GDH Limited, an intermediate holding company of the Company.

Subsequent to balance sheet date, the TOA was terminated by way of full repayment of the non-PRC bank debts prescribed in the TOA. Further details of the new bank loan are also disclosed in note 38(a) to the financial statements.