

Notes to the Financial Statements

For the year ended 31 December 2002

1. Basis of Preparation

The financial statements 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 effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

2. Principal Accounting Policies

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

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies (Continued)

(b) Associated company

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the result of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(c) 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 income statement.

The balance sheet 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.

(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.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over 5 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies (Continued)

(e) Impairment of intangible assets

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

(f) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at cost or valuation less accumulated depreciation. Valuation is determined by the Directors based on independent valuations which 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 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, leasehold improvements, furniture and fixtures, motor vehicles and moulds are stated at cost less accumulated depreciation and accumulated impairment losses. Other fixed assets 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%
Leasehold improvements, furniture and fixtures	20% - 30%
Motor vehicles	20% - 25%
Moulds	25%

Major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to their next scheduled overhaul.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies (Continued)

(f) Fixed assets (Continued)

(ii) Other fixed assets (Continued)

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

(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 income statement 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 income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(g) 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 lease 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 income statement 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 Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies (Continued)

(g) 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 income statement on a straight-line basis over the lease periods.

(h) 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, and/or, where appropriate, subcontracting charges. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) 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.

(j) 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, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(k) Provisions

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.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies (Continued)

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

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 income statement represents contributions payable by the Group to the fund.

(m) 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 financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(n) 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 financial statements. 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.

Notes to the Financial Statements

For the year ended 31 December 2002

2. Principal Accounting Policies (Continued)

(n) Contingent liabilities and contingent assets (Continued)

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

(o) 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.

(p) Borrowing costs

All borrowing costs are charged to the income statement 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.

(q) 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, fixed assets, including additions resulting from acquisitions through purchases of subsidiaries, and investment in an associated company.

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 Financial Statements

For the year ended 31 December 2002

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:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of manufactured goods	234,180	255,711
Subcontracting fee income	—	5,772
Trading of raw materials	71,887	86,868
	306,067	348,351
Other revenue		
Interest income	161	1,142
	306,228	349,493

(a) 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 raw materials

Despite the fact that the Group did not receive any subcontracting fee income during the year, the Directors do not regard the provision of subcontracting services as a discontinued or discontinuing operation.

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

Notes to the Financial Statements

For the year ended 31 December 2002

3. Turnover, Revenue and Segment Information (Continued)

(b) 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")	—	trading of raw materials
Asia region except the PRC	—	subcontracting fee income and sales of manufactured goods

Sales or transactions between the geographical segments are eliminated on presentation of segment information of the Group.

Notes to the Financial Statements

For the year ended 31 December 2002

3. Turnover, Revenue and Segment Information (Continued)

Primary reporting format - business segments

	Sales of manufactured goods 2002 HK\$'000	Subcontracting fee income 2002 HK\$'000	Trading of raw materials 2002 HK\$'000	Group 2002 HK\$'000
Turnover	234,180	—	71,887	306,067
Segment results	40,100	—	2,576	42,676
Interest income				161
Unallocated costs				(22,957)
Operating profit				19,880
Finance costs				(3,358)
Share of profit of an associated company				44
Profit before taxation				16,566
Taxation				(3,675)
Profit attributable to shareholders				12,891
Segment assets	83,069	—	9,326	92,395
Goodwill				222
Interests in an associated company				77
Unallocated assets				59,950
Total assets				152,644
Total liabilities				73,990
Capital expenditure				3,311
Depreciation				9,626
Amortisation charge				74
Impairment charge				327

Notes to the Financial Statements

For the year ended 31 December 2002

3. Turnover, Revenue and Segment Information (Continued)

Primary reporting format - business segments (Continued)

	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 Financial Statements

For the year ended 31 December 2002

3. Turnover, Revenue and Segment Information (Continued)

Secondary reporting format - geographical segments (Continued)

	Turnover	Segment	Total	Capital
	2002	result	assets	expenditure
	2002	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of America	135,785	21,256	—	—
Europe	93,926	18,332	—	—
The PRC	52,878	907	57,722	1,198
Asia region except the PRC	23,478	2,181	94,623	2,113
	<u>306,067</u>	<u>42,676</u>	<u>152,345</u>	<u>3,311</u>
Interest income		161		
Unallocated costs		(22,957)		
Operating profit		19,880		
Finance costs		(3,358)		
Share of profit of an associated company		44		
Profit before taxation		16,566		
Taxation		(3,675)		
Profit attributable to shareholders		<u>12,891</u>		
Goodwill			222	
Interests in an associated company			77	
Total assets			<u>152,644</u>	

Notes to the Financial Statements

For the year ended 31 December 2002

3. Turnover, Revenue and Segment Information (Continued)

Secondary reporting format - geographical segments (Continued)

	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	—	—
The PRC	50,344	1,158	64,668	12,872
Asia region except the PRC	46,753	4,920	79,261	20,012
	<u>348,351</u>	<u>42,878</u>	<u>143,929</u>	<u>32,884</u>
Interest income		1,142		
Unallocated costs		<u>(23,144)</u>		
Operating profit		20,876		
Finance costs		<u>(5,601)</u>		
Profit before taxation		15,275		
Taxation		<u>(1,606)</u>		
Profit attributable to shareholders		<u>13,669</u>		
Goodwill			<u>296</u>	
Total assets			<u>144,225</u>	

Notes to the Financial Statements

For the year ended 31 December 2002

4. Operating Profit

Operating profit is stated after charging the following:

	2002 HK\$'000	2001 HK\$'000
Depreciation:		
Owned fixed assets	9,400	5,920
Leased fixed assets	226	226
Impairment of fixed assets (included in other operating expenses, note 13(e))	327	—
Staff costs (including Directors' remuneration, note 10)	29,290	24,582
Cost of inventories	213,528	262,211
Auditors' remuneration		
Current year	550	570
Underprovision in prior year	75	—
	625	570
Net exchange losses	371	328
Amortisation of goodwill (included in administrative expenses, note 12)	74	74
Operating leases on land and buildings	500	264

5. Finance Costs

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts	3,299	5,542
Interest element of finance leases	59	59
	3,358	5,601

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6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 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 income statement represents:

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax		
Current	3,019	1,182
Overprovision in prior years	—	(182)
Overseas taxation		
Current	649	606
	<u>3,668</u>	<u>1,606</u>
Share of taxation attributable to an associated company	7	—
	<u>3,675</u>	<u>1,606</u>

There was no material unprovided deferred taxation for the year (2001: Nil).

7. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$64,000 (2001: profit of HK\$5,117,000).

8. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim, paid, of HK\$ Nil (2001: HK\$0.025) per ordinary share	—	5,000

Notes to the Financial Statements

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9. Earnings Per Share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$12,891,000 (2001: HK\$13,669,000).

The basic earnings per share is based on the weighted average of 200,000,000 (2001: 198,356,000) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2002 and 2001 were not disclosed as there were no dilutive potential ordinary shares.

10. Staff Costs (Including Directors' Remuneration)

	2002 HK\$'000	2001 HK\$'000
Wages and salaries	28,831	24,163
Contributions to pensions schemes		
— to the MPF Scheme (note a)	233	234
— to the PRC retirement scheme (note b)	226	185
	<u>29,290</u>	<u>24,582</u>

(a) 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 to 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1 December 2000. Contributions to the MPF Scheme are calculated as a percentage of employees' basic salaries.

(b) 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 1% of the applicable payroll costs.

Notes to the Financial Statements

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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:

	2002 HK\$'000	2001 HK\$'000
Fees paid to Independent Non-executive Directors	148	60
Basic salaries and other allowances	2,496	2,476
Contributions to pensions schemes	60	60
	<u>2,704</u>	<u>2,596</u>

The emoluments of the eight (2001: seven) Directors are less than HK\$1,000,000.

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 (2001: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2001: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual (2001: one) during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries and other allowances	320	261
Contribution to pensions schemes	12	12
	<u>332</u>	<u>273</u>

The emoluments of this (2001: one) highest paid individual are less than HK\$1,000,000.

No incentive payment or compensation for loss of office was paid or payable to this individual during the year (2001: Nil).

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12. Goodwill

	Group	
	2002	2001
	HK\$'000	HK\$'000
Year ended 31 December		
Opening net book amount	296	—
Acquisition of a subsidiary (note 23(b))	—	370
Amortisation charge (note 4)	(74)	(74)
Closing net book amount	222	296
At 31 December		
Cost	370	370
Accumulated amortisation	(148)	(74)
Net book amount	222	296

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13. Fixed Assets

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Group Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost or valuation						
At 1 January 2002	20,210	22,326	27,721	1,957	1,971	74,185
Exchange adjustment	82	108	119	4	11	324
Additions	—	2,254	416	104	137	2,911
At 31 December 2002	20,292	24,688	28,256	2,065	2,119	77,420
Accumulated depreciation and impairment						
At 1 January 2002	543	11,456	8,955	954	1,659	23,567
Exchange adjustment	4	59	47	2	8	120
Impairment charge (note e)	—	—	327	—	—	327
Charge for the year	669	3,421	4,940	429	167	9,626
At 31 December 2002	1,216	14,936	14,269	1,385	1,834	33,640
Net book value						
At 31 December 2002	19,076	9,752	13,987	680	285	43,780
At 31 December 2001	19,667	10,870	18,766	1,003	312	50,618

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13. Fixed Assets (Continued)

The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
At cost	6,630	24,688	28,256	2,065	2,119	63,758
At valuation	13,662	—	—	—	—	13,662
	<u>20,292</u>	<u>24,688</u>	<u>28,256</u>	<u>2,065</u>	<u>2,119</u>	<u>77,420</u>

The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
At cost	6,630	22,326	27,721	1,957	1,971	60,605
At valuation	13,580	—	—	—	—	13,580
	<u>20,210</u>	<u>22,326</u>	<u>27,721</u>	<u>1,957</u>	<u>1,971</u>	<u>74,185</u>

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13. Fixed Assets (Continued)

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	4,704	4,802
Outside Hong Kong, held on:		
Leases of over 50 years	6,486	6,619
Leases of between 10 to 50 years	7,886	8,246
	19,076	19,667

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

- (b) The carrying amount of the leasehold land and buildings would have been HK\$17,472,000 (2001: HK\$18,213,000) had they been stated at cost less accumulated depreciation.
- (c) At 31 December 2002, the net book value of motor vehicles held by the Group under finance leases amounted to HK\$225,000 (2001: HK\$451,000).
- (d) At 31 December 2002, the net book value of fixed assets pledged as security for the Group's bank loans amounted to HK\$Nil (2001: HK\$4,802,000).
- (e) Included in the opening balance of the cost of fixed assets of HK\$74,185,000 is an amount of HK\$10,320,000 which was a subject of qualification by the previous year's auditors. The Directors have carried out an independent valuation for the qualified amount of fixed assets as at 31 December 2002 which resulted in an impairment loss of HK\$327,000 (note 4).

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14. Investments in Subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	16,000	16,000
Amounts due from subsidiaries (note b)	31,565	31,545
	47,565	47,545

(a) Details of the subsidiaries at 31 December 2002 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/registered capital	Interest held	
				2002	2001
Direct interest:					
Glory Access Limited	The British Virgin Islands (The “BVI”)	Investment holding in the BVI	2,051,282 ordinary shares of US\$1 each	100%	100%
Indirect interest:					
Midland Management Limited	The 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 each	100%	100%

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14. Investments in Subsidiaries (Continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/registered capital	Interest held	
				2002	2001
Indirect interest (continued):					
惠州和實黃氏手袋有限公司 Hui Zhou Wallmark Handbags Co., Ltd.+*#	The 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.*#	The PRC	Manufacturing of handbag products and related accessories in the PRC	Registered capital HK\$500,000	100%	100%
Wallmark Enterprise (Cambodia) Co., Ltd.	Cambodia	Manufacturing of handbag products and related accessories in Cambodia	1,000 ordinary shares of US\$850 each	100%	100%

+ For identification purposes only

* Not audited by RSM Nelson Wheeler, Hong Kong

Foreign investment enterprise

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

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15. Interests in an Associated Company

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	437	—
Amount due to an associated company (<i>note b</i>)	(360)	—
	<u>77</u>	<u>—</u>
Investment at cost:		
Unlisted shares	400	—
	<u>400</u>	<u>—</u>

(a) Details of the associated company at 31 December 2002 are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held indirectly	
				2002	2001
FX Wealthmark International Limited	Hong Kong	Trading of handbag products and related accessories	400,000 ordinary shares of HK\$1 each	40%	—

(b) Amount due to an associated company is unsecured, interest free and has no fixed terms of repayment.

16. Inventories

	Group	
	2002	2001
	HK\$'000	HK\$'000
Finished goods	12,357	11,868
Work in progress	1,101	674
Raw materials	14,210	14,599
	<u>27,668</u>	<u>27,141</u>

At 31 December 2002, no inventories were carried at net realisable value (2001: Nil).

Notes to the Financial Statements

For the year ended 31 December 2002

17. Trade and Other Receivables

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	64,727	42,715	—	—
Prepayments, deposits and other receivables	660	3,947	178	34
	65,387	46,662	178	34

(a) Included in trade receivables is an amount due from an associated company of HK\$1,718,000 (2001: HK\$Nil).

(b) Customers are generally granted credit terms of 30 to 60 days. At 31 December 2002, the ageing analysis of the trade receivables were as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current to 30 days	20,209	21,646
31 - 60 days	16,459	12,219
61 - 90 days	7,289	6,058
Over 90 days	20,770	2,792
	64,727	42,715

18. Bank Balances and Cash

Included in bank balances and cash of the Group as at 31 December 2002 are amounts totalling HK\$948,000 (2001: HK\$1,687,000) which were held by subsidiaries in the PRC and the remittance of these funds out of the PRC is subject to exchange control regulations.

Notes to the Financial Statements

For the year ended 31 December 2002

19. Trade and Other Payables

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade and bill payables	4,982	8,119	—	—
Other payables	14,364	11,382	123	—
	<u>19,346</u>	<u>19,501</u>	<u>123</u>	<u>—</u>

At 31 December 2002, the ageing analysis of the trade and bill payables were as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current to 30 days	2,606	4,810
31 - 60 days	1,343	2,043
61 - 90 days	792	1,043
Over 90 days	241	223
	<u>4,982</u>	<u>8,119</u>

20. Long-term Liabilities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Bank loans - secured	—	327
Obligations under finance leases	73	293
	<u>73</u>	<u>620</u>
Current portion of long-term liabilities	(73)	(547)
	<u>—</u>	<u>73</u>

Notes to the Financial Statements

For the year ended 31 December 2002

20. Long-term Liabilities (Continued)

At 31 December 2002, the Group's bank loans and present value of finance lease liabilities were repayable as follows:

	Bank loans - secured		Obligations under finance leases	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	—	327	73	220
In the second year	—	—	—	73
	<u>—</u>	<u>327</u>	<u>73</u>	<u>293</u>

At 31 December 2002, the Group's finance lease liabilities were repayable as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	94	279
In the second year	—	94
	<u>94</u>	<u>373</u>
Future finance charges on finance leases	(21)	(80)
	<u>73</u>	<u>293</u>

Notes to the Financial Statements

For the year ended 31 December 2002

21. Share Capital

	Authorised Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 31 December 2001 and 2002	1,000,000,000	100,000
	Issued and fully paid Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 January 2001	160,000,000	16,000
Issue of shares	40,000,000	4,000
At 31 December 2001 and 2002	200,000,000	20,000

On 16 January 2001, 40,000,000 shares of HK\$0.1 each of the Company were issued at the subscription price of HK\$1.0 per share pursuant to a public offer and placing of shares.

Notes to the Financial Statements

For the year ended 31 December 2002

22. Reserves

	Group						
	Share premium	Properties revaluation reserve	Merger reserve	Statutory reserves	Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	(note a) HK\$'000	(note b) HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 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 31 December 2001	<u>27,645</u>	<u>406</u>	<u>2,150</u>	<u>2,223</u>	<u>29</u>	<u>13,137</u>	<u>45,590</u>
Representing: Company and subsidiaries	<u>27,645</u>	<u>406</u>	<u>2,150</u>	<u>2,223</u>	<u>29</u>	<u>13,137</u>	<u>45,590</u>
At 1 January 2002	27,645	406	2,150	2,223	29	13,137	45,590
Exchange differences	—	—	—	—	173	—	173
Profit for the year	—	—	—	—	—	12,891	12,891
At 31 December 2002	<u>27,645</u>	<u>406</u>	<u>2,150</u>	<u>2,223</u>	<u>202</u>	<u>26,028</u>	<u>58,654</u>
Representing: Company and subsidiaries	<u>27,645</u>	<u>406</u>	<u>2,150</u>	<u>2,223</u>	<u>202</u>	<u>25,991</u>	<u>58,617</u>
Associated company	—	—	—	—	—	37	37
	<u>27,645</u>	<u>406</u>	<u>2,150</u>	<u>2,223</u>	<u>202</u>	<u>26,028</u>	<u>58,654</u>

Notes to the Financial Statements

For the year ended 31 December 2002

22. Reserves (Continued)

	Share premium HK\$'000	Company Retained earnings HK\$'000	Total HK\$'000
At 1 January 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
2001 interim dividends paid (note 8)	—	(5,000)	(5,000)
At 31 December 2001	<u>27,645</u>	<u>117</u>	<u>27,762</u>
At 1 January 2002	27,645	117	27,762
Loss for the year	—	(64)	(64)
At 31 December 2002	<u>27,645</u>	<u>53</u>	<u>27,698</u>

- (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 at the time of the group reorganisation on 29 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.

Notes to the Financial Statements

For the year ended 31 December 2002

23. Notes to the Consolidated Cash Flow Statement

(a) Analysis of changes in financing during the year

	Share capital including share premium		Bank loans		Obligations under finance leases	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	47,645	16,000	11,811	887	293	513
Issue of shares	—	40,000	—	—	—	—
Share issue expenses	—	(8,355)	—	—	—	—
Cash inflows/(outflows)	—	—	(7,566)	10,924	(220)	(220)
At 31 December	<u>47,645</u>	<u>47,645</u>	<u>4,245</u>	<u>11,811</u>	<u>73</u>	<u>293</u>

(b) Purchase of a subsidiary

	2002	2001
	HK\$'000	HK\$'000
Net assets acquired		
Fixed assets	—	6,630
Goodwill (note 12)	—	370
	<u>—</u>	<u>7,000</u>
Satisfied by		
Cash	—	7,000
	<u>—</u>	<u>7,000</u>

24. Banking Facilities

At 31 December 2002, the Group had aggregate banking facilities of approximately HK\$206,417,000 (2001: HK\$199,813,000) in respect of overdrafts, term loans and other trade finance facilities. These banking facilities were secured by corporate guarantees executed by the Company (2001: secured by certain leasehold land and buildings (note 13(d)) and fixed deposits of the Group and corporate guarantees executed by the Company).

Banking facilities utilised at 31 December 2002 amounted to approximately HK\$39,201,000 (2001: HK\$46,564,000).

Notes to the Financial Statements

For the year ended 31 December 2002

25. Contingent Liabilities

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Guarantees for bank loans and trust receipt loans of subsidiaries	—	—	39,201	39,400
Bills of exchange discounted with recourse	4,774	9,816	—	—
	<u>4,774</u>	<u>9,816</u>	<u>39,201</u>	<u>39,400</u>

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

- (b) At 31 December 2002, several employees of the Group and the Company had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group and the Company are only liable to make such payments where the termination meets the required circumstances specified in the Ordinance. If the termination of the employees met the circumstances required by the Ordinance, the Group's and the Company's liability at 31 December 2002 would have been approximately HK\$576,000 (2001: HK\$515,000). No provision has been made for this amount in the financial statements.

26. Commitments under Operating Leases

At 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2002	2001
	HK\$'000	HK\$'000
Not later than one year	327	348
Later than one year and not later than five years	612	1,139
Later than five years	—	38
	<u>939</u>	<u>1,525</u>

Notes to the Financial Statements

For the year ended 31 December 2002

27. Related Party Transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	2002 HK\$'000	2001 HK\$'000
Sales to an associated company	<u>3,403</u>	<u>—</u>

Sales to an associated company were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

28. Ultimate Holding Company

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

29. Comparative Figures

The comparative figures were audited by another firm of certified public accountants in Hong Kong. Certain comparative figures have been reclassified to conform with the current year's presentation.

30. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 16 April 2003.