Notes to the Financial Statements

For the year ended 31 December 2004

1. Basis of Preparation

The financial statements have been prepared based from the books and records maintained by the Company and its subsidiaries. However, due principally to the seizure of a substantial part of the books and records of the Group by the Independent Commission Against Corruption and the significant staff and management turnover towards the end of the financial year, certain underlying books and records were either lost, or could not be located, particularly for the period from 1 January 2004 to 30 November 2004. Consequently, the Directors cannot satisfactorily substantiate or otherwise support certain transactions undertaken by the Group and the Directors cannot ensure the nature, timing, completeness, appropriateness, classification and disclosures in respect of certain transactions and the related balances as included in the financial statements, or determine whether any additional disclosures are required.

Although the Group has reported a loss attributable to shareholders of HK$104,390,000 and a net cash outflow from operating activities of HK$32,364,000 for the year ended 31 December 2004 and net current liabilities of HK$48,402,000 and net liabilities of HK$18,999,000 as at 31 December 2004, the financial statements have been prepared on a going concern basis. Currently, the Group's operations are funded by its internal resources. The continuation of the Group's business depends upon the ability of the Group to attain profitable and positive cash flow operations and/or obtaining third party financing to meet its future working capital and financial requirements.

On 12 April 2005, Orientelite Investments Limited ("Orientelite" or the "Offeror"), which is beneficially majority owned by China Enterprise Capital Limited ("CEC") acquired 135,000,000 shares of the Company ("Shares") from Wisechoice Assets Limited and 15,000,000 Shares from Accuport Development Limited, beneficially owned by Mr. Wong Chor Wo and Ms. Rosita Andres, being former Directors of the Company, respectively for a total consideration of HK$4,000,000. This represents 75% of the issued share capital of the Company. The Offeror is required to make a mandatory unconditional cash offer for all the outstanding Shares pursuant to Rule 26.1 of the Code on Takeovers and Mergers.

On the same day, the Offeror has also entered into a deed of assignment dated 12 April 2005 between the Offeror, Standard Chartered Bank (Hong Kong) Limited (the "Coordinating Bank") and 9 of the bank creditors of the Company (the "Assigning Banks") whereby the Coordinating Bank and the Assigning Banks agreed to assign their rights and benefits under the banking facilities, which in aggregate is approximately HK$69 million, to the Offeror.

1. Basis of Preparation (continued)

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to the classification of recorded asset amounts, with these assets being written down to their recoverable amounts, and to the amounts and classification of liabilities, to reflect the fact that the Group may be required to realise its assets and extinguish its liabilities other than in the normal course of business; additional liabilities may crystallise and the resulting amounts may differ materially from those stated in the financial statements. The effects of these adjustments have not been reflected in the financial statements.

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 Institute of Certified Public Accountants ("HKICPA"). 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 fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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.

Notes to the Financial Statements

For the year ended 31 December 2004

2. Principal Accounting Policies (continued)

(a) *Consolidation* (continued)

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

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

(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 results of 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.

Unrealised profits and losses resulting from transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses are eliminated, provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(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 sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2. Principal Accounting Policies (continued)

(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.

(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 deprecation. 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%.

2. Principal Accounting Policies (continued)

(f) Fixed assets (continued)

(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 deprecation 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.

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.

2. Principal Accounting Policies (continued)

(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.

(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.

2. Principal Accounting Policies (continued)

(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.

(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 funds.

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

2. Principal Accounting Policies (continued)

(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, it 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 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.

Notes to the Financial Statements

For the year ended 31 December 2004

2. Principal Accounting Policies (continued)

(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 segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of inventories and receivables. Capital expenditure comprises additions to goodwill and fixed assets.

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.

3. Turnover, Revenue and Segment Information

The Group continues to engage in manufacturing and sale of handbag products and related accessories and garments, provision of related subcontracting services and trading of raw materials. Revenues recognised during the year are as follows:

	2004	2003
	HK$'000	HK$'000
Turnover		
Handbag products and related accessories		
Sales of manufactured goods	**192,676**	255,463
Garments		
Subcontracting fee income	**5,693**	4,066
Trading of raw materials	**37,350**	63,122
	235,719	322,651
Other revenue		
Interest income	**358**	378
Net exchange gains	**–**	1,530
Sundry income	**446**	–
	804	1,908
	236,523	324,559

3. Turnover, Revenue and Segment Information (continued)

(a) Primary reporting format – business segments

The Group is organised into three main business segments:

Handbag products and related accessories	–	manufacture and sale of handbag products and related accessories and provision for related subcontracting services
Garments	–	manufacture and sale of garments and provision for related subcontracting services
Raw materials	–	trading of raw materials

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

(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 handbag products and related accessories
Europe	–	sales of manufactured handbag products and related accessories
The People's Republic of China (the "PRC")	–	trading of raw materials
	–	sales of manufactured handbag products and related accessories
Asia region except the PRC	–	sales of manufactured handbag products and related accessories
	–	subcontracting fee income from garments

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 2004

3. Turnover, Revenue and Segment Information (continued)

Primary reporting format – business segments

	Handbag products and related accessories 2004 HK$'000	Garments 2004 HK$'000	Raw materials 2004 HK$'000	Group 2004 HK$'000
Turnover	192,676	5,693	37,350	235,719
Segment results	(27,961)	(2,626)	796	(29,791)
Other revenue				804
Unallocated costs				(74,482)
Operating loss				(103,469)
Finance costs				(2,634)
Share of profit of an associated company				94
Loss before taxation				(106,009)
Taxation				1,733
Loss before minority interests				(104,276)
Minority interests				(114)
Loss attributable to shareholders				(104,390)
Segment assets	44,726	–	–	44,726
Interests in an associated company				(299)
Unallocated assets				43,560
Total assets				87,987
Total liabilities				106,986
Capital expenditure				4,326
Depreciation				8,465
Amortisation charge				74
Provision for doubtful debts				49,247
Revaluation deficit on leasehold land and buildings				2,399
Impairment charge				
– Fixed assets				1,695
– Goodwill				74

3. Turnover, Revenue and Segment Information (continued)

Primary reporting format – business segments (continued)

	Handbag products and related accessories 2003 HK$'000	Garments 2003 HK$'000	Raw materials 2003 HK$'000	Group 2003 HK$'000
Turnover	255,463	4,066	63,122	322,651
Segment results	38,659	(2,060)	1,344	37,943
Other revenue				1,908
Unallocated costs				(23,458)
Operating profit				16,393
Finance costs				(2,762)
Share of loss of an associated company				(410)
Profit before taxation				13,221
Taxation				(1,822)
Profit attributable to shareholders				11,399
Segment assets	85,484	130	20,956	106,570
Interests in an associated company				(333)
Goodwill				148
Unallocated assets				90,885
Total assets				197,270
Total liabilities				107,651
Capital expenditure				3,276
Depreciation				9,924
Amortisation charge				74
Provision for doubtful debts				719

Notes to the Financial Statements

For the year ended 31 December 2004

3. Turnover, Revenue and Segment Information (continued)

Secondary reporting format – geographical segments

	Turnover 2004 HK$'000	Segment results 2004 HK$'000	Total assets 2004 HK$'000	Capital expenditure 2004 HK$'000
United States of America	100,975	(14,550)	–	–
Europe	67,556	(9,953)	–	–
The PRC	59,893	(2,432)	43,056	2,984
Asia region except the PRC	7,295	(2,856)	45,230	1,342
	235,719	(29,791)	88,286	4,326
Other revenue		804		
Unallocated costs		(74,482)		
Operating loss		(103,469)		
Finance costs		(2,634)		
Share of profit of an associated company		94		
Loss before taxation		(106,009)		
Taxation		1,733		
Loss after taxation		(104,276)		
Minority interests		(114)		
Loss attributable to shareholders		(104,390)		
Interests in an associated company			(299)	
Total assets			87,987	

3. Turnover, Revenue and Segment Information (continued)

Secondary reporting format – geographical segments (continued)

	Turnover 2003 HK$'000	Segment results 2003 HK$'000	Total assets 2003 HK$'000	Capital expenditure 2003 HK$'000
United States of America	119,263	14,841	–	–
Europe	130,977	20,916	–	–
The PRC	71,240	2,085	68,265	1,555
Asia region except the PRC	1,171	101	129,190	1,721
	322,651	37,943	197,455	3,276
Other revenue		1,908		
Unallocated costs		(23,458)		
Operating profit		16,393		
Finance costs		(2,762)		
Share of loss of an associated company		(410)		
Profit before taxation		13,221		
Taxation		(1,822)		
Profit attributable to shareholders		11,399		
Interests in an associated company			(333)	
Goodwill			148	
Total assets			197,270	

Notes to the Financial Statements

For the year ended 31 December 2004

4. Operating (Loss)/Profit

Operating (loss)/profit is stated after charging the following:

	2004	2003
	HK$'000	HK$'000
Depreciation:		
Owned fixed assets	**8,359**	9,906
Leased fixed assets	**106**	18
Revaluation deficit on leasehold land and buildings		
(included in other operating expenses)	**2,399**	–
Impairment charge (included in other operating expenses)		
– fixed assets *(note 13)*	**1,695**	–
– goodwill *(note 12)*	**74**	–
	1,769	–
Staff costs (including Directors' remuneration) *(note 10)*	**33,301**	31,103
Cost of inventories	**217,286**	234,207
Auditors' remuneration		
Current year	**1,000**	560
Underprovision in prior year	**–**	10
	1,000	570
Net exchange losses	**1,080**	–
Amortisaton of goodwill (included in administrative expenses, *note 12*)	**74**	74
Operating leases on land and buildings	**590**	487
Gain on disposal of fixed assets	**15**	–

5. Finance Costs

	2004	2003
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**2,626**	2,742
Interest element of finance leases	**8**	20
	2,634	2,762

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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 (credited)/charged to the consolidated income statement represents:

	2004	2003
	HK$'000	HK$'000
Hong Kong profits tax		
Current year	**94**	3,320
Overprovision in prior years	**–**	(185)
Overseas taxation		
Current year	**–**	28
Overprovision in prior years	**(1,827)**	(1,195)
Deferred taxation relating to the origination and reversal of temporary differences	**–**	(177)
Deferred taxation resulting from an increase in tax rate	**–**	31
	(1,733)	1,822
Share of taxation attributable to an associated company	**–**	–
Taxation (credit)/charge	**(1,733)**	1,822

Notes to the Financial Statements

For the year ended 31 December 2004

6. Taxation (continued)

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 **HK$'000**	2003 HK$'000
(Loss)/profit before taxation	**(106,009)**	13,221
Calculated at a taxation rate of 17.5%	**(18,552)**	2,314
Effect of different taxation rates in other countries	**(2,274)**	9
Income not subject to taxation	**(136)**	(342)
Expenses not deductible for taxation purposes	**2,219**	1,052
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	**–**	31
Tax effect of utilisation of tax losses not previously recognised	**–**	(6)
Tax effect of other temporary differences not recognised	**(27)**	144
Tax effect of tax losses not recognised	**18,864**	–
Overprovision in prior years	**(1,827)**	(1,380)
Taxation (credit)/charge	**(1,733)**	1,822

7. (Loss)/Profit Attributable to Shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$42,131,000 (2003: loss of HK$110,000).

8. Dividends

	2004 **HK$'000**	2003 HK$'000
Final, proposed, of HKNil cents (2003: HK2.75 cents) per ordinary share	**–**	5,500

The Directors do not recommend the payment of a dividend.

9. (Loss)/Earnings Per Share

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK$104,390,000 (2003: profit of HK$11,399,000) and 200,000,000 (2003: 200,000,000) ordinary shares in issue during the year.

Diluted (loss)/earnings per share for the years ended 31 December 2004 and 2003 were not disclosed as there were no dilutive potential ordinary shares.

10. Staff Costs (Including Directors' remuneration)

	2004	2003
	HK$'000	HK$'000
Wages and salaries	**32,091**	30,662
Unutilised annual leave	**113**	–
Provision for long service payments *(note a)*	**653**	–
Contributions to pension schemes		
– to the MPF Scheme *(note b)*	**207**	220
– to the PRC retirement scheme *(note c)*	**237**	221
	33,301	31,103

(a) At 31 December 2004, 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 2004 would have been approximately HK$653,000 (2003: HK$664,000). No provision for the liability has been made in the financial statements as at 31 December 2003.

(b) 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.

(c) 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.

11. Directors' and Senior Management's Emoluments

(a) Directors' emoluments

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

	2004	2003
	HK$'000	HK$'000
Independent Non-executive Directors		
Fees	**173**	160
Executive Directors		
Basic salaries and other allowances	**2,170**	2,396
Contributions to pension schemes	**58**	60
	2,401	2,616

The emoluments of each of the eight (2003: 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 (2003: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2004 include four (2003: five) directors. The emoluments payable to the five highest paid individuals during the year ended 31 December 2004 were as follows:

	2004	2003
	HK$'000	HK$'000
Basic salaries and other allowances	**2,225**	2,396
Contributions to pension schemes	**58**	60
	2,283	2,456

The emoluments of each of the five highest paid individuals are less than HK$1,000,000.

No incentive payment or compensation for loss of office was paid or payable to the five highest paid individuals during the year ended 31 December 2004 (2003: Nil).

12. Goodwill

	Group	
	2004	2003
	HK$'000	HK$'000
Year ended 31 December		
Opening net book amount	**148**	222
Amortisation charge *(note 4)*	**(74)**	(74)
Impairment charge *(note 4)*	**(74)**	–
Closing net book amount	**–**	148
At 31 December		
Cost	**370**	370
Accumulated amortisation and impairment losses	**(370)**	(222)
Net book amount	**–**	148

Notes to the Financial Statements

For the year ended 31 December 2004

13. Fixed Assets

	Group					
	Leasehold land and buildings	**Plant and machinery**	**Leasehold improvements, furniture and fixtures**	**Motor vehicles**	**Moulds**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation						
At 1 January 2004	20,292	26,485	29,470	2,292	2,157	80,696
Additions	293	3,200	657	159	17	4,326
Disposals	–	(108)	–	–	–	(108)
Revaluation	(3,685)	–	–	–	–	(3,685)
At 31 December 2004	**16,900**	**29,577**	**30,127**	**2,451**	**2,174**	**81,229**
Accumulated depreciation and impairment						
At 1 January 2004	1,884	18,424	19,451	1,840	1,965	43,564
Charge for the year	674	3,185	4,329	181	96	8,465
Disposals	–	(46)	–	–	–	(46)
Revaluation	(2,558)	–	–	–	–	(2,558)
Impairment charge *(note 4)*	–	316	1,379	–	–	1,695
At 31 December 2004	**–**	**21,879**	**25,159**	**2,021**	**2,061**	**51,120**
Net book value						
At 31 December 2004	**16,900**	**7,698**	**4,968**	**430**	**113**	**30,109**
At 31 December 2003	18,408	8,061	10,019	452	192	37,132

13. Fixed Assets (continued)

The analysis of the cost or valuation at 31 December 2004 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	–	29,577	30,127	2,451	2,174	64,329
At valuation	16,900	–	–	–	–	16,900
	16,900	29,577	30,127	2,451	2,174	81,229

The analysis of the cost or valuation at 31 December 2003 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	26,485	29,470	2,292	2,157	67,034
At valuation	13,662	–	–	–	–	13,662
	20,292	26,485	29,470	2,292	2,157	80,696

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For the year ended 31 December 2004

13. Fixed Assets (continued)

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

	Group	
	2004	2003
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**5,930**	4,606
Outside Hong Kong, held on:		
Leases of over 50 years	**3,822**	6,354
Leases of between 10 to 50 years	**7,148**	7,448
	16,900	18,408

The leasehold land and buildings were revalued on 31 December 2004 on the basis of their open market value by Norton Appraisals Limited, an independent firm of professional valuers. A revaluation surplus of HK$1,272,000 was credited to properties revaluation reserve and a revaluation deficit of HK$2,399,000 was charged to the consolidated income statement for the year ended 31 December 2004.

(b) The carrying amount of the leasehold land and buildings would have been HK$22,287,000 (2003: HK$16,625,000) had they been stated at cost less accumulated depreciation.

(c) At 31 December 2004, the net book value of fixed assets held by the Group under finance leases amounted to HK$409,000 (2003: HK$515,000).

14. Investments in Subsidiaries

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**16,000**	16,000
Amounts due from subsidiaries *(note b)*	**31,224**	31,528
	47,224	47,528
Less: Provisions	**(47,224)**	–
	–	47,528

14. Investments in Subsidiaries

(a) Details of the subsidiaries at 31 December 2004 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
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%
Indirect interest:				
Midland Management Limited	The BVI	Inactive	12,902 ordinary shares of US$1 each	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%
惠州和寶黃氏手袋有限公司 Hui Zhou Wallmark Handbags Co., Ltd.[+*#]	The PRC	Trading and manufacturing of handbag products and related accessories and provision of related subcontracting services in the PRC	Registered capital HK$13,000,000	100%
Wallmark Enterprise (Cambodia) Co., Ltd.	Kingdom of Cambodia ("Cambodia")	Manufacturing of garments and provision of related subcontracting services in Cambodia	1,000 ordinary shares of US$850 each	100%
Eastway Corporation Limited	Hong Kong	Trading of handbag products in Hong Kong	100 ordinary shares of HK$1 each	51%
Wallmark Enterprise Company Limited – Macao Commercial Offshore	Macau	Inactive	1 ordinary share of MOP100,000 each	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.

15. Interests in an Associated Company

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**121**	27
Amount due to an associated company *(note b)*	**(420)**	(360)
	(299)	(333)
Investment at cost:		
Unlisted shares	**400**	400

(a) Details of the associated company at 31 December 2004 are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held indirectly
FX Wealthmark International Limited	Hong Kong	Inactive	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	
	2004	2003
	HK$'000	HK$'000
Raw materials	**8,476**	9,330
Work in progress	**2,536**	2,088
Finished goods	**13,092**	16,276
	24,104	27,694

At 31 December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK$179,000 (2003: HK$Nil).

17. Trade and Other Receivables

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**20,623**	78,876	**–**	–
Prepayments, deposits and other receivables	**521**	403	**34**	34
	21,144	79,279	**34**	34

(a) Customers are generally granted credit terms of 45 to 120 days. At 31 December 2004, the ageing analysis of the trade receivables was as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Current to 30 days	**6,772**	41,467
31 – 60 days	**5,062**	18,890
61 – 90 days	**1,148**	14,823
Over 90 days	**7,641**	3,696
	20,623	78,876

18. Bank Balances and Cash

Included in bank balances and cash of the Group as at 31 December 2004 are amounts totalling HK$2,912,000 (2003: HK$4,927,000) which were held by subsidiaries in the PRC and the remittance of these funds out of the PRC is subject to exchange control regulations.

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For the year ended 31 December 2004

19. Trade and Other Payables

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**3,241**	4,855	**–**	–
Other payables	**22,590**	19,009	**151**	57
	25,831	23,864	**151**	57

At 31 December 2004, the ageing analysis of the trade payables was as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Current to 30 days	**1,284**	2,013
31 – 60 days	**1,046**	1,571
61 – 90 days	**652**	861
Over 90 days	**259**	410
	3,241	4,855

20. Short-term Bank Loans and Overdrafts

	Group	
	2004	2003
	HK$'000	HK$'000
Short-term bank loans	**22,911**	21,976
Bank overdrafts	**72**	–
	22,983	21,976

Subsequent to the balance sheet date, the short-term bank loans have been assigned to Orientelite which became the Company's immediate holding company on 12 April 2005 *(note 28(e))*.

21. Long-term Liabilities

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loans – unsecured	**23,000**	28,750
Obligations under finance leases	**196**	376
	23,196	29,126
Current portion of long-term liabilities	**(23,196)**	(11,696)
	–	17,430

Subsequent to the balance sheet date, the bank loans have been assigned to Orientelite which became the Company's immediate holding company on 12 April 2005 *(note 28(e))*.

At 31 December 2004, the Group's bank loans and present value of finance lease liabilities were payable as follows:

	Bank loans – unsecured		Obligations under finance leases	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**23,000**	11,500	**196**	196
In the second year	**–**	11,500	**–**	180
In the third to fifth year	**–**	5,750	**–**	–
	23,000	28,750	**196**	376

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For the year ended 31 December 2004

21. Long-term Liabilities (continued)

At 31 December 2004, the Group's finance lease liabilities were repayable as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**207**	204
In the second year	**–**	187
	207	391
Future finance charges on finance leases	**(11)**	(15)
Present value of finance lease liabilities	**196**	376

22. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on deferred tax liabilities account is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
At 1 January	**288**	434
Deferred taxation credited to income statement *(note 6)*	**–**	(146)
At 31 December	**288**	288

22. Deferred Taxation (continued)

The major deferred tax liabilities recognised by the Group are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Accelerated tax depreciation	**288**	137
Others	**–**	151
	288	288

At the balance sheet date the Group has unused tax losses of HK$94,829,000 (2003: HK$Nil), which are subject to the approval of the tax authorities, available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

23. Share Capital

	2004	2003
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
200,000,000 ordinary shares of HK$0.1 each	**20,000**	20,000

24. Reserves

	Group							
	Share premium	Properties reserve revaluation	Merger reserve *(note a)*	Statutory reserves *(note b)*	Exchange difference	Retained earnings/ (accumulated losses)	Proposed final dividend	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2003	27,645	296	2,150	2,223	202	25,704	–	58,220
Profit for the year	–	–	–	–	–	11,399	–	11,399
Dividend – proposed	–	–	–	–	–	(5,500)	5,500	–
At 31 December 2003	27,645	296	2,150	2,223	202	31,603	5,500	69,619
Representing:								
Reserves	27,645	296	2,150	2,223	202	31,603	–	64,119
Proposed final dividend	–	–	–	–	–	–	5,500	5,500
At 31 December 2003	27,645	296	2,150	2,223	202	31,603	5,500	69,619
Company and subsidiaries	27,645	296	2,150	2,223	202	31,976	5,500	69,992
Associated company	–	–	–	–	–	(373)	–	(373)
At 31 December 2003	27,645	296	2,150	2,223	202	31,603	5,500	69,619
At 1 January 2004	27,645	296	2,150	2,223	202	31,603	5,500	69,619
Surplus on revaluation of properties	–	1,272	–	–	–	–	–	1,272
Dividend paid	–	–	–	–	–	–	(5,500)	(5,500)
Loss for the year	–	–	–	–	–	(104,390)	–	(104,390)
At 31 December 2004	**27,645**	**1,568**	**2,150**	**2,223**	**202**	**(72,787)**	**–**	**(38,999)**
Representing:								
Reserves	27,645	1,568	2,150	2,223	202	(72,787)	–	(38,999)
Company and subsidiaries	27,645	1,568	2,150	2,223	202	(72,508)	–	(38,720)
Associated company	–	–	–	–	–	(279)	–	(279)
At 31 December 2004	**27,645**	**1,568**	**2,150**	**2,223**	**202**	**(72,787)**	**–**	**(38,999)**

24. Reserves (continued)

	Company			
	Share premium HK$'000	Retained earnings/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2003	27,645	53	–	27,698
Loss for the year	–	(110)	–	(110)
Dividend – proposed	–	(5,500)	5,500	–
At 31 December 2003	27,645	(5,557)	5,500	27,588
Representing:				
Reserves	27,645	(5,557)	–	22,088
Proposed final dividend	–	–	5,500	5,500
	27,645	(5,557)	5,500	27,588
At 1 January 2004	27,645	(5,557)	5,500	27,588
Dividend paid	–	–	(5,500)	(5,500)
Loss for the year	–	(42,131)	–	(42,131)
At 31 December 2004	**27,645**	**(47,688)**	**–**	**(20,043)**
Representing:				
Reserves	27,645	(47,688)	–	(20,043)

(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) The statutory reserves of the Group 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.

25. Banking Facilities

At 31 December 2004, the Group had aggregate banking facilities of approximately HK$280,811,000 (2003: HK$246,046,000) in respect of overdrafts, term loans and other trade finance facilities. These banking facilities were secured by corporate guarantees executed by the Company.

Banking facilities utilised at 31 December 2004 amounted to approximately HK$72,778,000 (2003: HK$72,805,000).

26. Contingent Liabilities

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
(a) Guarantees for bank loans and trust receipt loans of subsidiaries	**–**	–	**72,778**	72,805
Bills of exchange discounted with recourse	**2,101**	2,630	**–**	–
	2,101	2,630	**72,778**	72,805

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

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
(b) Guarantees for banking facilities granted to an associated company	**3,120**	3,120	**3,120**	3,120
Amount utilised by the associated company	**–**	–	**–**	–

27. Commitments under Operating Leases

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004	2003
	HK$'000	HK$'000
Not later than one year	**1,040**	341
Later than one year and not later than five years	**3,225**	412
	4,265	753

28. Events after the Balance Sheet Date

(a) Independent Committee formed to Review the Financial and System Control of the Group

On 25 February 2005, the Company formed an independent committee comprising all of the Independent Non-executive Directors to conduct a review of the financial and system control of the Group in light of the Incident. The Company has prepared an Internal Control and Accounting Manual which was adopted by the Group. HLB Hodgson Impey Cheng was appointed on 19 January 2005 to review, supervise and monitor its implementation and to see whether there are any compliance shortcomings and to advise the independent board committee accordingly.

(b) Standstill Agreement with Principal Bankers

On 24 February 2005, the Company has entered into a formal standstill arrangement with its principal bankers (excluding Banco Delta Asia S.A.R.I.) regarding the banking facilities of the Group with those banks. The formal standstill agreement essentially formalises the informal standstill arrangement which had been put in place by the Group's bankers (excluding Banco Delta Asia S.A.R.I.) since November 2004.

(c) Writ Issued by Banco Delta Asia S.A.R.I.

On 7 February 2005, Banco Delta Asia S.A.R.I. issued a writ against the Company claiming an outstanding trust receipt facility together with interest amounted to HK$610,490.50. The outstanding amount has been fully settled on 12 April 2005.

(d) Writ Issued by the Hong Kong Inland Revenue Department

On 2 March 2005, the Commissioner of Inland Revenue of Hong Kong filed a District Court Proceeding against Wallmark Enterprise Company Limited, a wholly owned subsidiary of the Company, claiming unpaid taxation amounted to HK$556,545. The outstanding amount was substantially settled leaving an unpaid balance of HK$185,515 as at the date of this report.

28. Events after the Balance Sheet Date (continued)

(e) Acquisition of a Majority Stake in Company by the Offeror and General Offer

On 12 April 2005, Orientelite Investments Limited (the "Offeror"), which is beneficially majority owned by China Enterprise Capital Limited ("CEC") acquired 135,000,000 Shares from Wisechoice Assets Limited and 15,000,000 Shares from Accuport Development Limited, beneficially owned by Mr. Wong Chor Wo and Ms. Rosita Andres, being former Directors of the Company, respectively for a total consideration of HK$4,000,000. This represents 75% of the issued share capital of the Company. The Offeror is required to make a mandatory unconditional cash offer for all the outstanding Shares pursuant to Rule 26.1 of the Code on Takeovers and Mergers. The Offer for each Share will be HK$0.0267 in cash, the total number of Shares subject to the Offer are valued at HK$1,335,000 based on the Offer Price.

On the same day, the Offeror has also entered into a deed of assignment dated 12 April 2005 between the Offeror, Standard Chartered Bank (Hong Kong) Limited (the "Coordinating Bank") and 9 of the bank creditors of the Company (the "Assigning Banks") whereby the Coordinating Bank and the Assigning Banks agreed to assign their rights and benefits under the banking facilities, which in aggregate is approximately HK$69 million, to the Offeror.

An independent board committee to advise the independent shareholders of the Company in respect of the Offer has been established by the Company. On 20 April 2005, Partners Capital International Limited has been appointed as the independent financial adviser to advise the independent board committee of the Company in respect of the Offer.

29. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's classification.

30. Ultimate Holding Company

At 31 December 2004, the Directors regarded Wisechoice Assets Limited ("Wisechoice"), a company incorporated in the British Virgin Islands, as being the ultimate holding company.

On 12 April 2005, Wisechoice sold its entire interest in the Company to Orientelite. Consequently, the directors regard Orientelite, a company incorporated in the British Virgin Islands, as being the immediate holding company and China Enterprise Capital Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

31. Approval of Financial Statements

The financial statements were approved by the Board of Directors on 28 April 2005.