

# Notes to the Financial Statements

*For the year ended 31st March, 2001*

## 1. GENERAL

The Company is an investment holding company incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (Revised) Chapter 22 of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Fortune Star Tradings Limited (“Fortune Star”), a company which is incorporated in the British Virgin Islands.

The principal activities of the Company’s principal subsidiaries are set out in note 29.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of property, plant and equipment, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### **Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of subsidiaries and is written off directly to reserves in the year of acquisition. Negative goodwill which represents the excess of the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of subsidiaries over the purchase consideration is credited to reserves.

On disposal of investments in subsidiaries, the attributable amount of goodwill or negative goodwill previously eliminated against or credited to reserves is included in the determination of the profits or losses on disposal of the subsidiaries.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the operation is disposed of.

### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group during the year.

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

### Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent government body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases and hire purchase contracts

A lease is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases or hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor or hirer, net of interest charges, is included in the balance sheet as a finance lease or hire purchase obligation. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases or contracts so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the period of the relevant lease term.

### Property, plant and equipment

Property, plant and equipment other than buildings under construction are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation or amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of property, plant and equipment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, when it is recognised as income. A decrease in the net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent disposal or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are not discounted to their present values.

The valuation of freehold land is not amortised.

The valuation of leasehold land and land use rights is amortised over the period of the lease or rights respectively using the straight line method.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (continued)

Buildings under construction are stated at cost which includes all construction costs and other direct costs, including borrowing costs capitalised, if any, attributable to the buildings under construction. They are not depreciated or amortised until completion of construction. The cost of completed buildings under construction is transferred to the appropriate categories of property, plant and equipment.

Depreciation and amortisation is provided to write off the valuation of buildings and leasehold improvements over their estimated useful lives, using the straight line method, at the rate of 5% per annum.

Depreciation is provided to write off the valuation of property, plant and equipment other than buildings and leasehold improvements over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Motor vehicles	25%
Moulds	33 $\frac{1}{3}$ %
Plant and machinery	20%

In previous years, property, plant and equipment other than buildings and leasehold improvements were depreciated over their estimated useful lives, using the straight line method, at a rate ranging from 15% to 33 $\frac{1}{3}$ % per annum. Upon a reassessment of the expected pattern of consumption of the economic benefits of these assets, the Group commenced to write off the valuation of these assets over their estimated useful lives, using the reducing balance method, at the above rates per annum, effective from 1st April, 2000. The change in the accounting estimate on the change from straight line method to reducing balance method arising from the reassessment of the pattern of consumption of economic benefits of these assets has decreased the depreciation charge for the year by approximately HK\$10,550,000.

Assets held under finance leases are depreciated on the same basis as owned assets or, where shorter, over the period of the relevant lease.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

# Notes to the Financial Statements

*For the year ended 31st March, 2001*

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Pension**

The Group operates a funded defined benefit scheme (the “Defined Benefit Scheme”), the assets of which are held in a separate insurer-administered fund. The expected costs of providing pensions relating to the employees’ current and past services, as calculated periodically by a professionally qualified actuary, were charged to the income statement so as to spread the pension costs over the service lives of employees in the Defined Benefit Scheme in such a way that the cost was substantially at a level percentage of both current and expected future pensionable payroll.

In December, 2000, the Group’s employees of Hong Kong subsidiaries have been enrolled into a Mandatory Provident Fund Scheme (“MPF Scheme”). The contributions payable in respect of the current year to the MPF Scheme are charged as an expense as they fall due.

### **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

### **Cash equivalents**

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks which are repayable within three months from the dates of the advances.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 3. PROFIT FROM OPERATIONS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Directors' emoluments ( <i>note 4</i> )	3,279	7,600
Other staff costs	117,011	95,480
Other pension costs	1,285	1,495
<b>Total staff costs</b>	<b>121,575</b>	104,575
Auditors' remuneration	762	634
Deficit arising on revaluation of property, plant and equipment	168	1,204
Depreciation and amortisation of property, plant and equipment		
— owned by the Group	33,178	39,610
— held under a finance lease and a hire purchase contract	20	149
Loss on disposal of property, plant and equipment	1,086	1,328
Operating lease rentals in respect of		
— land and buildings	2,727	3,568
— equipment	222	166
and after crediting:		
Interest income	3,704	2,548

## 4. DIRECTORS' EMOLUMENTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Directors' fees:		
Executive	—	—
Independent non-executive	240	240
Other emoluments of executive directors:		
Salaries and other benefits	2,746	2,900
Bonuses	102	4,190
Pension costs	191	270
<b>Total directors' emoluments</b>	<b>3,279</b>	7,600

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 4. DIRECTORS' EMOLUMENTS (Continued)

The emoluments of the directors were within the following bands:

	2001 Number of directors	2000 Number of directors
Up to HK\$1,000,000	7	5
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$3,000,001 to HK\$3,500,000	—	1

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## 5. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals did not include any executive directors of the Company (2000: included two executive directors), whose emoluments are included in note 4 above. The emoluments of the five (2000: three) highest paid individuals are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	8,573	5,616
Bonuses	42	42
Pension costs	80	114
	<b>8,695</b>	<b>5,772</b>

The emoluments were within the following band:

	2001 Number of employees	2000 Number of employees
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,500,001 to HK\$3,000,000	1	1

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 6. FINANCE COSTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on		
— bank borrowings wholly repayable within five years	1,443	1,302
— obligations under a finance lease and a hire purchase contract	6	28
	<b>1,449</b>	1,330

## 7. TAXATION

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The charge comprises:		
Taxation of the Company and its subsidiaries		
— Hong Kong Profits Tax	7,930	9,098
— Overseas taxation	464	640
	<b>8,394</b>	9,738

A substantial portion of the Group's profits neither arises in, nor is derived from, Hong Kong and therefore is not subject to Hong Kong Profits Tax.

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for both years.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

In the opinion of the directors, the revaluation of the Group's property, plant and equipment does not constitute a timing difference for tax purpose.

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date.



# Notes to the Financial Statements

For the year ended 31st March, 2001

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders for the year includes a profit of HK\$107,529,000 (2000: HK\$107,593,000) which has been dealt with in the financial statements of the Company.

## 9. DIVIDENDS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interim dividend of 6.0 Hong Kong cents (2000: 6.0 Hong Kong cents) per share	49,500	49,500
Proposed final dividend of 7.0 Hong Kong cents (2000: 7.0 Hong Kong cents) per share	57,750	57,750
	<b>107,250</b>	107,250

The final dividend proposed for the year ended 31st March, 2001 was calculated with reference to 825,000,000 shares in issue as at the date of this report.

## 10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$122,332,000 (2000: HK\$127,750,000) and the 825,000,000 (2000: 825,000,000) shares in issue during the year.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Buildings under construction HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
<b>COST OR VALUATION</b>								
At 1st April, 2000	200,171	889	12,934	15,367	4,806	3,729	90,011	327,907
Currency realignment	(2,981)	—	(31)	11	(39)	—	(380)	(3,420)
Additions	8,650	—	1,463	285	715	781	6,381	18,275
Transfers	889	(889)	—	—	—	—	—	—
Disposals	—	—	(100)	—	(44)	—	(1,568)	(1,712)
Adjustment arising on revaluation	(7,257)	—	(4,315)	(491)	(1,980)	(1,349)	(38,767)	(54,159)
<b>Valuation at 31st March, 2001</b>	<b>199,472</b>	<b>—</b>	<b>9,951</b>	<b>15,172</b>	<b>3,458</b>	<b>3,161</b>	<b>55,677</b>	<b>286,891</b>
<b>DEPRECIATION AND AMORTISATION</b>								
At 1st April, 2000	—	—	—	—	—	—	—	—
Provided for the year	9,126	—	2,753	821	1,327	1,332	17,839	33,198
Eliminated on revaluation	(9,126)	—	(2,753)	(821)	(1,327)	(1,332)	(17,839)	(33,198)
<b>At 31st March, 2001</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>NET BOOK VALUE</b>								
<b>At 31st March, 2001</b>	<b>199,472</b>	<b>—</b>	<b>9,951</b>	<b>15,172</b>	<b>3,458</b>	<b>3,161</b>	<b>55,677</b>	<b>286,891</b>
At 31st March, 2000	200,171	889	12,934	15,367	4,806	3,729	90,011	327,907

The Group's property, plant and equipment, other than property interests situated in Thailand, were revalued at 31st March, 2001 by Sallmanns (Far East) Limited, an independent firm of professional property, plant and machinery valuers, as follows:

- (i) on the basis of open market value in existing use as regards property interests situated in Hong Kong; and
- (ii) on the basis of fair market value in continued use as part of an on-going business as regards other property, plant and equipment.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests situated in Thailand were revalued at 31st March, 2001, by Thai Property Appraisal Vigers (Thailand) Co., Ltd., an independent firm of professional property valuers, on the basis of open market value in existing use.

The deficit of HK\$20,961,000 (2000: net surplus of HK\$14,492,000) arising on the above revaluation has been dealt with as follows:

- (i) a deficit of HK\$20,793,000 (2000: surplus of HK\$15,696,000) has been debited to the asset revaluation reserve; and
- (ii) a deficit of HK\$168,000 (2000: HK\$1,204,000) has been charged to the consolidated income statement.

If the above property, plant and equipment had not been revalued, they would have been included on a historical cost basis at the following amounts:

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>							
Cost	229,722	26,856	21,570	14,265	10,638	119,183	422,234
Accumulated depreciation and amortisation	(33,693)	(18,890)	(7,034)	(12,759)	(9,741)	(81,704)	(163,821)
<b>NET BOOK VALUE</b>							
At 31st March, 2001	<b>196,029</b>	<b>7,966</b>	<b>14,536</b>	<b>1,506</b>	<b>897</b>	<b>37,479</b>	<b>258,413</b>
At 31st March, 2000	198,738	9,251	15,099	1,462	621	39,169	264,340

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
The net book value of the Group's property interests comprises:		
Properties		
— freehold in Thailand	<b>16,272</b>	19,883
— held under medium-term leases in Hong Kong	<b>8,330</b>	4,997
— held under medium-term land use rights in other regions in the People's Republic of China (the "PRC")	<b>164,870</b>	164,941
— held under long-term land use rights in the PRC	<b>10,000</b>	10,350
Buildings under construction on		
— land held under medium-term land use rights in the PRC	—	889
	<b>199,472</b>	201,060

At 31st March, 2001, there was no property, plant and equipment held under a finance lease and a hire purchase contract. At 31st March, 2000, the net book value of the Group's property, plant and equipment held under a finance lease and a hire purchase contract was approximately HK\$339,000.

## 12. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares, at cost	<b>257,567</b>	257,567
Amount due from a subsidiary	<b>153,190</b>	152,900
	<b>410,757</b>	410,467

Details of the Company's principal subsidiaries at 31st March, 2001 are set out in note 29.

In the opinion of the directors, the amount due from the subsidiary is unlikely to be repaid within one year and is therefore shown in the balance sheet as non-current.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 13. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	104,294	95,795
Work in progress	26,193	25,056
Finished goods	24,568	13,968
	155,055	134,819

## 14. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 60 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$106,258,000 (2000: HK\$120,026,000). The aging analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Less than 1 month	57,892	56,840
1-2 months	25,622	21,897
2-3 months	9,158	18,705
Over 3 months	13,586	22,584
	106,258	120,026

## 15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$64,422,000 (2000: HK\$55,470,000). The aging analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Less than 1 month	46,623	41,182
1 -2 months	16,067	11,165
2 -3 months	1,190	3,055
Over 3 months	542	68
	64,422	55,470

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 16. AMOUNT DUE TO A RELATED COMPANY

The amount represents balance due to Lee & Man Industries Company Limited which is wholly-owned by Fortune Star, the controlling shareholder of the Company. It is unsecured, interest free and repayable on demand.

## 17. SHORT-TERM BANK BORROWINGS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Bank loan	2,340	2,749
Trust receipt and import loans	1,452	15,161
Bank overdrafts	2,964	2,645
	<b>6,756</b>	<b>20,555</b>

## 18. SHARE CAPITAL

	2001 & 2000 HK\$'000
Authorised:	
5,000,000,000 ordinary shares of HK\$0.10 each	<b>500,000</b>
Issued and fully paid:	
825,000,000 ordinary shares of HK\$0.10 each	<b>82,500</b>

There was no change in the Company's share capital in either year.

## 19. SHARE OPTIONS

The Company has a share option scheme under which the executive directors and employees of the Company and its subsidiaries may be granted options to subscribe for ordinary shares in the Company. Up to 31st March, 2001, no option was granted under the scheme.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 20. RESERVES

	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
At 1st April, 1999	136,694	69,603	1,681	2,503	(64,980)	—	220,135	365,636
Surplus arising on revaluation of property, plant and equipment	—	15,696	—	—	—	—	—	15,696
Realised on depreciation of property, plant and equipment	—	(17,871)	—	—	—	—	17,871	—
Realised on disposal of property, plant and equipment	—	(297)	—	—	—	—	297	—
Exchange differences arising from translation of financial statements of overseas operations	—	—	310	—	—	—	—	310
Profit attributable to shareholders	—	—	—	—	—	—	127,750	127,750
Dividends (note 9)	—	—	—	—	—	—	(107,250)	(107,250)
At 31st March, 2000	136,694	67,131	1,991	2,503	(64,980)	—	258,803	402,142
Deficit arising on revaluation of property, plant and equipment	—	(20,793)	—	—	—	—	—	(20,793)
Realised on depreciation of property, plant and equipment	—	(12,176)	—	—	—	—	12,176	—
Realised on disposal of property, plant and equipment	—	(1,448)	—	—	—	—	1,448	—
Exchange differences arising from translation of financial statements of overseas operations	—	—	(3,447)	—	—	—	—	(3,447)
Profit attributable to shareholders	—	—	—	—	—	—	122,332	122,332
Dividends (note 9)	—	—	—	—	—	—	(107,250)	(107,250)
<b>At 31st March, 2001</b>	<b>136,694</b>	<b>32,714</b>	<b>(1,456)</b>	<b>2,503</b>	<b>(64,980)</b>	<b>—</b>	<b>287,509</b>	<b>392,984</b>
<b>THE COMPANY</b>								
At 1st April, 1999	136,694	—	—	—	—	191,567	461	328,722
Profit attributable to shareholders (note 8)	—	—	—	—	—	—	107,593	107,593
Dividends (note 9)	—	—	—	—	—	—	(107,250)	(107,250)
At 31st March, 2000	136,694	—	—	—	—	191,567	804	329,065
Profit attributable to shareholders (note 8)	—	—	—	—	—	—	107,529	107,529
Dividends (note 9)	—	—	—	—	—	—	(107,250)	(107,250)
<b>At 31st March, 2001</b>	<b>136,694</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>191,567</b>	<b>1,083</b>	<b>329,344</b>

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in May 1997.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 20. RESERVES (Continued)

The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company under the group reorganisation in May 1997 and the nominal value of the Company's shares issued for the acquisition.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and retained profits which in aggregate amounted to approximately HK\$329.3 million as at 31st March, 2001 (2000: HK\$329.1 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

## 21. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Profit before taxation	<b>130,726</b>	137,488
Interest income	<b>(3,704)</b>	(2,548)
Interest on bank borrowings	<b>1,443</b>	1,302
Interest on obligations under a finance lease and a hire purchase contract	<b>6</b>	28
Depreciation and amortisation of property, plant and equipment	<b>33,198</b>	39,759
Loss on disposal of property, plant and equipment	<b>1,086</b>	1,328
Deficit arising on revaluation of property, plant and equipment	<b>168</b>	1,204
Increase in inventories	<b>(20,236)</b>	(23,836)
Decrease (increase) in trade and other receivables	<b>12,478</b>	(47,596)
(Increase) decrease in bills receivable	<b>(1,147)</b>	812
Increase in trade and other payables	<b>3,624</b>	14,895
Increase (decrease) in amount due to a related company	<b>4,553</b>	(6,272)
Net cash inflow from operating activities	<b>162,195</b>	116,564



# Notes to the Financial Statements

For the year ended 31st March, 2001

## 22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Short-term bank loan <i>HK\$'000</i>	Obligations under a finance lease and a hire purchase contract <i>HK\$'000</i>
At 1st April, 1999	—	169
New bank loan raised	2,749	—
Repayment	—	(138)
At 1st April, 2000	2,749	31
New bank loan raised	2,340	—
Repayment	(2,749)	(31)
<b>At 31st March, 2001</b>	<b>2,340</b>	—

## 23. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank balances and cash	61,347	60,936
Trust receipt and import loans	(1,452)	(15,161)
Bank overdrafts	(2,964)	(2,645)
	<b>56,931</b>	43,130

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments to make rental payments in the following year under non-cancellable operating leases as follows:

	THE GROUP			
	Land and buildings		Equipment	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating leases which expire:				
— Within one year	460	622	—	—
— In the second to fifth year inclusive	—	—	253	177
— Over five years	867	663	—	—
	<b>1,327</b>	1,285	<b>253</b>	177

The Company had no operating lease commitments at the balance sheet date.

## 25. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	22,629	1,177

The Company had no capital commitments at the balance sheet date.

## 26. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Export bills discounted with recourse	29,098	26,554	—	—
Guarantees given to banks in respect of credit facilities extended to subsidiaries	—	—	191,000	214,250

# Notes to the Financial Statements

*For the year ended 31st March, 2001*

## 27. PENSIONS

The Group operates the Defined Benefit Scheme for its qualifying employees employed by member companies of the Defined Benefit Scheme. In December 2000, all existing members of the Defined Benefit Scheme have been enrolled into the MPF Scheme and their accrued benefits have been frozen as at 30th November, 2000. The Defined Benefit Scheme is closed to new employees. The assets of both schemes are held separately from those of the member companies in funds under the control of independent insurers.

The Defined Benefit Scheme cost is assessed in accordance with the advice of Mr. Norm Lau of HSBC Life (International) Limited, Fellow of the Society of Actuaries, using the projected unit credit cost method. The aim of this method is to maintain a fund equal to the actuarial value of all the benefits deemed to have accrued in respect of service completed at the date of actuarial review by reference to projected final salary at date of termination. The result of the latest independent actuarial assessment of the Defined Benefit Scheme as at 31st March, 2001 was set out in an actuarial report dated 5th July, 2001.

As at the date of the latest actuarial valuation, the value of the Defined Benefit Scheme's assets was approximately HK\$12.9 million and the amount of the past service liabilities was approximately HK\$7.0 million of which approximately HK\$0.2 million was vested.

In accordance with the actuarial funding recommendation of the latest actuarial valuation, the Defined Benefit Scheme's assets will be sufficient to meet the Defined Benefit Scheme's aggregate vested liabilities in each of the following three years. Contribution to the Defined Benefit Scheme has been suspended with effect from 1st April, 2001. The date of the next actuarial review should be no later than 31st March, 2004.

The retirement benefit cost for the MPF Scheme charged to the income statement represents contributions payable to a fund by the Group at rates specified in the rules of the MPF Scheme.

## 28. CONNECTED TRANSACTIONS AND BALANCE

Lee & Man Industrial Manufacturing Limited ("L & M Industrial Manufacturing"), a wholly-owned subsidiary of the Company, entered into four agreements, as detailed in notes a to d below and all dated 29th May, 1998, with Lee & Man Industries Company Limited ("L & M Industries") which is wholly-owned by Fortune Star, the controlling shareholder of the Company, in respect of (i) purchase of raw materials; (ii) sale of waste paper by-products; (iii) purchase of steam; and (iv) granting of licence for the use of certain facilities of the Group. Such transactions (the "Connected Transactions") were detailed in the circular of the Company dated 19th June, 1998 and the Connected Transactions were approved in an extraordinary general meeting of the Company held on 6th July, 1998 (the "EGM").

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 28. CONNECTED TRANSACTIONS AND BALANCE (Continued)

Transactions with L & M Industries during the year and the balance with it at the balance sheet date pursuant to the above agreements are as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
<b>Nature of transactions/balance</b>		
Raw materials purchased (note a)	21,977	28,257
Waste paper by-products sold (note b)	3,379	3,227
Steam purchased (note c)	1,560	1,560
Licence fee received (note d)	627	611
Balance due to L & M Industries	4,626	73

Note:

- Pursuant to the master supply agreement for raw materials (the "Raw Material Agreement"), L & M Industries has agreed to sell and L & M Industrial Manufacturing has agreed to purchase such quantities of test liner and corrugated medium paper as may be ordered by L & M Industrial Manufacturing from time to time for a period of three years commencing July 1998 and thereafter unless and until terminated by either party giving to the other party not less than three months' written notice. The prices are based on the monthly quote given by L & M Industries provided that the quote is not higher than the prevailing market price of test liner and corrugated medium paper at the time of such quotation. The aggregate amount of raw materials purchased by the Group under the Raw Material Agreement for the year did not exceed the limit approved in the EGM.
- Pursuant to the master supply agreement for waste paper by-products (the "Waste Paper Agreement"), L & M Industrial Manufacturing has agreed to sell and L & M Industries has agreed to purchase such quantities of waste paper as may be ordered by L & M Industries from time to time for a period of three years commencing July 1998 and thereafter unless and until terminated by either party giving to the other party not less than three months' written notice. The prices are based on the monthly quote given by L & M Industrial Manufacturing provided that the quote is not higher than the prevailing market price of waste paper at the time of such quotation. The aggregate amount of waste paper by-products sold by the Group under the Waste Paper Agreement for the year did not exceed the limit approved in the EGM.
- Pursuant to the agreement for the supply of steam (the "Steam Agreement"), L & M Industrial Manufacturing has agreed to purchase and L & M Industries has agreed to provide steam at Huang Yong Industrial Park, the PRC (the "Premises") for a term of two years commencing July 1998 and thereafter for successive terms of one year as may be renewed between the parties. The agreement was renewed on 10th July, 2000 for a period of one year. L & M Industrial Manufacturing will pay a monthly fee of HK\$130,000 (which is based on the monthly fee representing approximately the cost of coal incurred by L & M Industrial Manufacturing to produce steam in the past) to L & M Industries for the supply of steam by L & M Industries. The aggregate amount of fee incurred by the Group under the Steam Agreement for the year did not exceed the limit approved in the EGM.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 28. CONNECTED TRANSACTIONS AND BALANCE (Continued)

- d. Pursuant to a licence agreement (the "Licence Agreement"), L & M Industrial Manufacturing has agreed to permit L & M Industries and its subsidiaries (i) to enter into possession of and occupy certain office space and staff quarters of the Premises; and (ii) to use and enjoy the canteen, playground, function rooms and other recreational facilities in the Premises in common with L & M Industrial Manufacturing and all others having the like right, as a licensee for a term of two years (which may be renewed annually if agreed by both parties) commencing July 1998 for a monthly licence fee of HK\$40,000.

The Licence Agreement also provides that if L & M Industries requires the use of additional areas in the Premises during the term of the Licence Agreement, L & M Industrial Manufacturing may grant further licence(s) to L & M Industries and its subsidiaries to enter into possession of and occupy such areas for a monthly licence fee calculated on the basis of the number of square metres of the area of such premises times HK\$8 per square metre. The aggregate amount of licence fee received by the Group under the Licence Agreement for the year did not exceed the limit approved in the EGM.

The agreement was renewed at the same terms on 10th July, 2000 for a period of one year.

## 29. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned by the Company at 31st March, 2001, are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Principal activities <sup>#</sup>
Lee & Man Development Company Limited	British Virgin Islands	Shares —US\$90	Investment holding
Lee & Man Industrial Manufacturing Limited	Cayman Islands	Share —US\$1	Manufacture of handbags, luggage, audio cassette products and corrugated paper packaging products in the PRC
Lee & Man Company Limited	Hong Kong	Ordinary shares —HK\$1,000,000 Non-voting deferred shares —HK\$1,000,000	Marketing of handbags and luggage
Lee & Man Handbag Manufacturing Company Limited	Hong Kong	Ordinary shares — HK\$10,000 Non-voting deferred shares — HK\$500,000	Marketing of handbags

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 29. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Principal activities <sup>#</sup>
Lee & Man Handbag (Thailand) Co., Ltd. @	Thailand	Shares — 30,000,000 Baht	Manufacture of handbags and luggage in Thailand
Lee & Man Paper Products Company Limited	Hong Kong	Ordinary shares — HK\$10,000 Non-voting deferred shares — HK\$500,000	Provision of procurement services
Lee & Man Manufacturing Company Limited	Hong Kong	Ordinary shares — HK\$1,000 Non-voting deferred shares — HK\$500,000	Marketing of audio cassette products
Lee & Man Realty Investment Limited	Hong Kong	Ordinary shares — HK\$10,000 Non-voting deferred shares — HK\$2,000 *	Property holding
Lee & Man Management Company Limited	Hong Kong	Ordinary shares — HK\$2	Provision of management and administrative services

@ The financial statements of this subsidiary are not audited by member firms of Deloitte Touche Tohmatsu.

\* These deferred shares were not held by the Group.

# The principal activities are carried out in Hong Kong except as otherwise stated under principal activities above.

Only Lee & Man Development Company Limited is directly held by the Company.

The deferred shares practically carry no rights to participate in profits or surplus assets or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up. In respect of the deferred shares of Lee & Man Realty Investment Limited which are not held by the Group, the Company has been granted an option by the holders of these deferred shares to acquire them at a nominal amount.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 29. PRINCIPAL SUBSIDIARIES (Continued)

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## 30. POST BALANCE SHEET EVENT

Subsequent to 31st March, 2001, the Company set up a new subsidiary in Hainan Province in the PRC which will be engaged in the manufacture of paper packaging products with a registered share capital of approximately HK\$3,900,000. Capital injection up to the date of this report was approximately HK\$2,800,000.

## 31. ANALYSIS OF SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to operating profit by principal activity and geographical market is as follows:

<b>Business Segments</b>	<b>Turnover</b> <i>HK\$'000</i>	<b>Operating profit</b> <i>HK\$'000</i>
Manufacture and sales of		
— Handbags and luggage	693,921	83,894
— Paper packaging products	218,071	37,303
— Audio cassette products	92,231	7,274
	1,004,223	128,471
Add: Interest income		3,704
Less: Interest expenses		(1,449)
		130,726
<b>Geographical market</b>		<b>Turnover</b> <i>HK\$'000</i>
United States of America		533,429
People's Republic of China other than Hong Kong		218,071
Europe		148,599
Japan		55,448
Hong Kong		29,330
Other areas		19,346
		1,004,223

The contribution to operating profit by individual geographical market is not presented as the contribution to operating profit from each geographical market as a proportion of turnover from that market is in line with the ratio of operating profit to turnover achieved by the Group.