

Notes to the Financial Statements

For the year ended 31 March 2002

1. GENERAL

The Company is an investment holding company incorporated on 27 July 2001 and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (Revised) Chapter 22 of the Cayman Islands. Its ultimate holding company is Fortune Star Tradings Ltd. (“Fortune Star”), a company which is incorporated in the British Virgin Islands.

On 14 December 2001, pursuant to a group reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company acquired the entire issued share capital of Lee & Man Development Company Limited (“Lee & Man Development”) through a share swap and became the holding company of the companies now comprising the Group.

Following the Group Reorganisation, the principal activities of its subsidiaries are engaged in the manufacture and sales of handbags and luggage. Details of the Group Reorganisation are set out in the introduction document issued by the Company dated 21 December 2001.

The shares of the Company were listed on the Stock Exchange by introduction on 16 January 2002.

The Group Reorganisation is accounted for using merger accounting in accordance with the Hong Kong Statement of Standard Accounting Practice No. 27 “Accounting for group reconstructions”. The consolidated financial statements for the year ended 31 March 2002, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

No balance sheet of the Company as at 31 March 2001 is presented as the Company was not incorporated on that date.

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 of the Group, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The Group Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

Notes to the Financial Statements

For the year ended 31 March 2002

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. Apart from the Group Reorganisation referred to in note 1 above, 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 inter-company transactions and balances within the Group are eliminated on consolidation.

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. Profits 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

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

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For the year ended 31 March 2002

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and amortisation and any subsequent impairment loss. 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, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in 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 accumulated profits.

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

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.

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 ¹ / ₃ %
Plant and machinery	20%

Notes to the Financial Statements

For the year ended 31 March 2002

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of impairment loss is treated as a revaluation increase under that accounting standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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 pension 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 MPF Scheme are charged as an expense as they fall due.

Notes to the Financial Statements

For the year ended 31 March 2002

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Notes to the Financial Statements

For the year ended 31 March 2002

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

No business segment analysis is provided as all of the Company's turnover and contribution to results were derived from the manufacture and sales of handbags and luggage for the year.

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Contribution to profit from operations	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
United States of America	493,197	502,819	58,581	59,406
Europe	172,637	144,053	20,506	17,020
Hong Kong	18,279	27,310	3,507	5,125
South America	6,753	5,223	802	617
Japan	6,659	13,043	791	1,541
Others	6,266	1,473	744	172
	703,791	693,921	84,931	83,881
Interest income			1,704	3,222
Finance costs			(934)	(1,205)
Profit before taxation			85,701	85,898
Taxation			(6,635)	(7,298)
Profit attributable to shareholders			79,066	78,600

Since the goods sold to various geographical markets were produced from the same production facilities, analysis of assets and liabilities by geographical market is not presented.

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For the year ended 31 March 2002

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments (continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
People's Republic of China (the "PRC")	177,069	119,548	5,386	3,652
Hong Kong	99,973	196,175	637	706
United States of America	28,695	15,870	1,450	238
Thailand	4,745	5,693	2	17
	310,482	337,286	7,475	4,613

4. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments (<i>note 5</i>)	3,827	4,224
Other staff costs	103,604	97,596
Other pension costs and mandatory provident fund contributions	880	1,128
Total staff costs	108,311	102,948
Auditors' remuneration	427	355
Bad debts written off	4,158	–
Deficit arising on revaluation of property, plant and equipment	773	–
Depreciation and amortisation of property, plant and equipment		
– owned by the Group	10,543	11,942
– held under a finance lease	–	20
Listing expenses written off	4,919	–
Loss on disposal of property, plant and equipment	37	442
and after crediting:		
Interest income	1,704	3,222

Notes to the Financial Statements

For the year ended 31 March 2002

5. DIRECTORS' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	100	–
Other emoluments of executive directors:		
Salaries and other benefits	3,621	3,862
Bonuses	46	68
Pension costs and mandatory provident fund contributions	60	294
Total directors' emoluments	3,827	4,224

The emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Up to HK\$1,000,000	9	9
HK\$1,000,001 to HK\$1,500,000	1	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.

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6. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals include one (2001: one) executive director of the Company, whose emoluments are included in note 5 above. The emoluments of the remaining four (2001: four) highest paid individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	8,335	7,426

The emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	3	2
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	–

7. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on		
– bank borrowings wholly repayable within five years	934	1,199
– obligations under a finance lease	–	6
	934	1,205

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8. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
Hong Kong Profits Tax	6,615	7,298
Overseas taxation	20	–
	6,635	7,298

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% of the estimated assessable profit for both respective year.

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.

9. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Final dividend paid in respect of preceding financial year	59,000	59,000
Interim dividend paid in respect of current financial year	32,250	13,470
	91,250	72,470

No dividend has been paid or declared by the Company since its incorporation. The above dividends represent dividends paid by the subsidiaries to their then shareholders prior to the Group Reorganisation.

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For the year ended 31 March 2002

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$79,066,000 (2001: HK\$78,600,000) and 825,000,000 (2001: 825,000,000) shares on the basis that all shares issued pursuant to the Group Reorganisation had been in issue during the year.

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
THE GROUP								
COST OR VALUATION								
At 1 April 2001	91,623	–	6,703	12,332	2,493	253	13,561	126,965
Currency realignment	483	–	5	–	5	–	57	550
Additions	2,371	2,110	1,728	592	305	–	369	7,475
Transfers	2,110	(2,110)	–	–	–	–	–	–
Disposals	–	–	(95)	–	(536)	–	(52)	(683)
Adjustment arising on revaluation	(3,602)	–	(495)	(1,483)	(270)	(41)	(897)	(6,788)
Valuation at 31 March 2002	92,985	–	7,846	11,441	1,997	212	13,038	127,519
DEPRECIATION AND AMORTISATION								
At 1 April 2001	–	–	–	–	–	–	–	–
Provided for the year	4,588	–	1,512	1,168	559	85	2,631	10,543
Eliminated on revaluation	(4,588)	–	(1,512)	(1,168)	(559)	(85)	(2,631)	(10,543)
At 31 March 2002	–	–	–	–	–	–	–	–
NET BOOK VALUE								
At 31 March 2002	92,985	–	7,846	11,441	1,997	212	13,038	127,519
At 31 March 2001	91,623	–	6,703	12,332	2,493	253	13,561	126,965

The Group's property, plant and equipment, other than property interests situated in Thailand, were revalued at 31 March 2002 by Sallmanns (Far East) Limited, an independent firm of professional property, plant and machinery valuers, on the basis of fair market value in continued use as part of an on-going business.

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11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Group's property interests situated in Thailand were revalued at 31 March 2002 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 net surplus of HK\$3,755,000 (2001: deficit of HK\$4,296,000) arising on the above revaluation has been dealt with as follows:

- (i) a surplus of HK\$4,528,000 (2001: deficit of HK\$4,296,000) has been credited/charged to the asset revaluation reserve; and
- (ii) a deficit of HK\$773,000 (2001: nil) 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>
THE GROUP							
Cost	115,782	13,903	17,700	8,571	887	34,899	191,742
Accumulated depreciation and amortisation	(22,767)	(9,717)	(7,055)	(7,867)	(866)	(27,330)	(75,602)
Net book value							
At 31 March 2002	93,015	4,186	10,645	704	21	7,569	116,140
At 31 March 2001	92,759	4,054	11,185	953	39	9,511	118,501

THE GROUP	
2002	2001
HK\$'000	<i>HK\$'000</i>

The net book value of the Group's property interests comprises:

Properties		
– freehold in Thailand	17,850	16,272
– held under medium-term land use rights in the PRC	75,135	75,351
	92,985	91,623

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12. INTERESTS IN SUBSIDIARIES

	THE COMPANY 2002 <i>HK\$'000</i>
Unlisted shares (<i>Note</i>)	215,145

Note: The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the Group Reorganisation.

Details of the Company's principal subsidiaries at 31 March 2002 are set out in note 28.

13. INVENTORIES

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Raw materials	45,975	48,848
Work in progress	22,184	22,969
Finished goods	16,327	17,259
	84,486	89,076

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\$63,628,000 (2001: HK\$47,238,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Less than 1 month	52,038	36,659
1 – 2 months	9,116	8,940
2 – 3 months	1,169	739
Over 3 months	1,305	900
	63,628	47,238

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15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$46,185,000 (2001: HK\$55,402,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Less than 1 month	37,009	40,832
1 – 2 months	8,615	13,402
2 – 3 months	501	648
Over 3 months	60	520
	46,185	55,402

16. AMOUNTS DUE TO RELATED COMPANIES

The amounts represent balances due to certain subsidiaries of Lee & Man Holdings Limited (“Lee & Man Holdings”) which was a holding company of the Company prior to the Group Reorganisation. As part of the Group Reorganisation, all balances with Lee & Man Holdings and its subsidiaries (other than members of the Group) were set off and the resulting net balance payable was capitalised by the Company by issuing 120,000,000 new shares of HK\$0.10 each in the Company. Prior to the capitalisation, all amounts were unsecured, interest free and repayable on demand.

17. SHORT-TERM BANK BORROWINGS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bank loan	2,496	2,340
Trust receipt and import loans	2,440	–
Bank overdrafts	2,619	2,740
	7,555	5,080

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18. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each:		
Authorised:		
On incorporation	1,000,000	100
Increase in authorised share capital	4,999,000,000	499,900
At 31 March, 2002	5,000,000,000	500,000
Issued and fully paid:		
Issue of share to subscriber	1	–
Issue of new shares on acquisition of subsidiaries	704,999,999	70,500
Issue of new shares on settlement of debt	120,000,000	12,000
At 31 March, 2002	825,000,000	82,500

The Company was incorporated on 27 July 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each.

On 22 August 2001, 1 share of HK\$0.10 was allotted and issued, for cash at par, to the subscriber.

As part of the Group Reorganisation, the Company became the holding company of the Group on 14 December 2001 by effecting the following changes in share capital:

- (i) the Company's authorised share capital was increased from HK\$100,000 to HK\$500,000,000 by the creation of 4,999,000,000 new ordinary shares of HK\$0.10 each in the Company;
- (ii) the Company issued 704,999,999 new ordinary shares of HK\$0.10 each in the Company, credited as fully paid at par to Lee & Man Holdings as consideration for the acquisition of Lee & Man Development.

Following the above capital changes, the Company's issued capital of HK\$70,500,000 divided into 705,000,000 shares of HK\$0.10 each were regarded as share capital for the preparation of the consolidated balance sheet at 31 March 2001.

Also as part of the Group Reorganisation, the Company issued a further 120,000,000 new ordinary shares of HK\$0.10 each in the Company to Lee & Man Holdings to settle the balance of the amount payable of HK\$32,307,578 due by the Company to Lee & Man Holdings.

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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 31 March 2002, no option was granted under the scheme.

20. RESERVES

	Share premium <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits (loss) <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
At 1 April 2000	–	15,388	1,991	(67,990)	–	187,141	136,530
Deficit arising on revaluation of property, plant and equipment	–	(4,296)	–	–	–	–	(4,296)
Realised on depreciation of property, plant and equipment	–	(2,159)	–	–	–	2,159	–
Realised on disposal of property, plant and equipment	–	(469)	–	–	–	469	–
Exchange differences arising on translation of financial statements of overseas operations	–	–	(3,447)	–	–	–	(3,447)
Profit attributable to shareholders	–	–	–	–	–	78,600	78,600
Dividends (<i>note 9</i>)	–	–	–	–	–	(72,470)	(72,470)
At 31 March 2001	–	8,464	(1,456)	(67,990)	–	195,899	134,917
Premium arising on issue of shares	20,307	–	–	–	–	–	20,307
Surplus arising on revaluation of property, plant and equipment	–	4,528	–	–	–	–	4,528
Realised on depreciation of property, plant and equipment	–	(500)	–	–	–	500	–
Realised on disposal of property, plant and equipment	–	(340)	–	–	–	340	–
Exchange differences arising on translation of financial statements of overseas operations	–	–	482	–	–	–	482
Profit attributable to shareholders	–	–	–	–	–	79,066	79,066
Dividends (<i>note 9</i>)	–	–	–	–	–	(91,250)	(91,250)
At 31 March 2002	20,307	12,152	(974)	(67,990)	–	184,555	148,050
THE COMPANY							
Premium arising on issue of shares	20,307	–	–	–	–	–	20,307
Reserve arising on acquisition of subsidiaries	–	–	–	–	112,338	–	112,338
Loss attributable to shareholders	–	–	–	–	–	(5,467)	(5,467)
At 31 March 2002	20,307	–	–	–	112,338	(5,467)	127,178

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20. RESERVES (CONTINUED)

The special reserve of the Group represents:

- (i) 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 the Group Reorganisation; and
- (ii) the special reserve of a subsidiary, Lee & Man Development, and which represents the difference between the nominal value of the share capital issued by Lee & Man Development and the nominal amount of the share capital of subsidiaries acquired by it pursuant to a group reorganisation in 1993.

The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company pursuant to the Group Reorganisation 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 accumulated loss which in aggregate amounted to approximately HK\$127.2 million as at 31 March 2002. 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 distributions 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.

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

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	85,701	85,898
Interest income	(1,704)	(3,222)
Interest on bank borrowings	934	1,199
Interest on obligations under a finance lease	–	6
Depreciation and amortisation of property, plant and equipment	10,543	11,962
Loss on disposal of property, plant and equipment	37	442
Bad debts written off	4,158	–
Listing expenses written off	4,919	–
Deficit arising on revaluation of property, plant and equipment	773	–
Decrease (increase) in inventories	4,590	(13,766)
Increase in trade and other receivables	(17,711)	(16,596)
Increase in bills receivable	(1,811)	(1,473)
(Decrease) increase in trade and other payables	(12,453)	10,401
Increase in bills payable	1,282	–
(Decrease) increase in amounts due to related companies	(11,077)	12,459
Net cash inflow from operating activities	68,181	87,310

22. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Short-term bank loan HK\$'000	Obligations under a finance lease HK\$'000
At 1 April 2000	2,749	31
New bank loan raised	2,340	–
Repayment	(2,749)	(31)
At 31 March 2001	2,340	–
New bank loan raised	2,496	–
Repayment	(2,340)	–
At 31 March 2002	2,496	–

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23. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002 HK\$'000	2001 HK\$'000
Bank balances and cash	18,951	57,035
Trust receipt and import loans	(2,440)	–
Bank overdrafts	(2,619)	(2,740)
	13,892	54,295

24. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Minimum lease payments paid under operating leases in respect of		
– land and buildings	4,035	3,284
– equipment	282	222
	4,317	3,506

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP			
	Land and buildings		Equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	3,164	867	214	253
In the second to fifth year inclusive	7,638	3,531	177	433
Over five years	–	824	–	–
	10,802	5,222	391	686

Operating lease payments represent rentals payable by the Group for office properties and equipment. Leases are negotiated for an average term of five years and fixed for three years for office properties and negotiated for an average term of two years for office equipment. Rentals are based on the terms specified in the lease agreements.

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

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25. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Export bills discounted with recourse	3,584	28,904	–	–
Guarantees given to banks in respect of credit facilities extended to				
– subsidiaries	–	–	70,300	–
– related companies under corporate guarantees (note 27(I))	–	95,000	–	–
– related companies under cross guarantees (note 27(I))	–	168,000	–	–

26. 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 30 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 project 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 31 March 2001 was set out in an actuarial report dated 5 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.

Notes to the Financial Statements

For the year ended 31 March 2002

26. PENSIONS (CONTINUED)

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 1 April 2001. The date of the next actuarial review should be no later than 31 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.

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(I) Related parties, other than connected parties

Lee & Man Holdings was the Company's immediate holding company prior to the Group Reorganisation. On 10 January 2002, Lee & Man Holdings declared a special distribution in specie by distributing all the shares in the Company to the then shareholders of Lee & Man Holdings. Following this distribution in specie, the Company and Lee & Man Holdings became fellow subsidiaries.

During the year and prior to the distribution in specie, the Group had the following transactions with Lee & Man Holdings and its subsidiaries, other than members of the Group (hereinafter collectively referred to as the "Holdings Group"):

Nature of transactions/balance	Notes	THE GROUP	
		2002 HK\$'000	2001 HK\$'000
Sales of goods	(a)	482	–
Sales of property, plant and equipment	(a)	–	287
Management fee income received	(b)	976	1,898
Transportation charges paid	(a)	134	146
Packing materials purchased	(a)	5,215	9,372
Rental paid	(a)	1,538	1,545
Balance due to the Holdings Group		–	44,196

Notes:

- (a) The transactions were carried out at market price.
- (b) The transactions were based on the actual cost plus a percentage profit mark-up.

In addition, the Group provided corporate and cross guarantees to the Holdings Group for the year ended 31 March 2001, details of which are set out in note 25.

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For the year ended 31 March 2002

27. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(II) Connected parties

Subsequent to the distribution in specie, the Holdings Group became a connected party to the Group. Transactions with the Holdings Group subsequent to the distribution in specie are as follows:

Nature of transactions/balance	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Corrugated cardboard and carton boxes purchased (<i>note a</i>)	1,292	–
Management fee income received (<i>note b</i>)	360	–
Licence fee paid (<i>note c</i>)	470	–
Balance due to the Holdings Group	812	–

Notes:

- a. The Group has agreed to purchase corrugated cardboard and carton boxes from time to time from the Holdings Group. The purchase prices are negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions.
- b. Pursuant to the management agreement entered into between the Company and Lee & Man Holdings on 14 December 2001, the Company has agreed to procure its subsidiaries to provide (i) use of office facilities and equipment; (ii) use of transportation facilities; and (iii) management service including administrative and financial services to the Holdings Group for a term of three years commencing 1 January 2002 for a monthly management fee of HK\$120,000.
- c. Pursuant to two licence agreements entered into between Lee & Man Management Company Limited (“Lee & Man Management”), a wholly-owned subsidiary of the Company and Lee & Man Realty Investment Limited (“Lee & Man Realty”), a wholly-owned subsidiary of Lee & Man Holdings on 14 December 2001, Lee & Man Realty has agreed to grant licences to Lee & Man Management and subsidiaries of the Company to enter into possession of and occupy certain office space of the Holdings Group for a term of three years commencing 1 January 2002 for a total monthly licence fee of HK\$156,750.

Notes to the Financial Statements

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28. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which were wholly-owned by the Company at 31 March 2002, are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Principal activities #
Lee & Man Development	British Virgin Islands	Shares – US\$90	Investment holding
Lee & Man Company Limited	Hong Kong	Ordinary shares – HK\$1,000,000 Non-voting deferred shares – HK\$1,000,000	Manufacture and sales of handbags and luggage
Lee & Man Handbag Manufacturing Company Limited	Hong Kong	Ordinary shares – HK\$10,000 Non-voting deferred shares – HK\$500,000	Manufacture and sales of handbags and luggage
Lee & Man Management	Hong Kong	Ordinary shares – HK\$2	Provision of management and administration services
Lee & Man Handbag (Thailand) Co., Ltd.	Thailand	Shares – 30,000,000 Baht	Manufacture of handbags and luggage in Thailand

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

Notes to the Financial Statements

For the year ended 31 March 2002

28. PRINCIPAL SUBSIDIARIES (CONTINUED)

Only Lee & Man Development 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.

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.

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