

# Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st March, 2002.

## CHANGE OF NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 14th June, 2002, the name of the Company was changed from Lee & Man Holdings Limited to SC Industrial Development Company Limited.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 19.

A special distribution was declared and paid in the form of 825,000,000 ordinary shares in Lee & Man Handbag International Limited ("L & M Handbag International") on the basis that one share in L & M Handbag International was distributed for every ordinary share in the Company then held. In addition, an interim dividend of 6.0 Hong Kong cents per share was paid during the year.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 21 to the financial statements.

## SHARE OPTIONS

- (a) The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 12th May, 1997 for recognition of past services contributed by the eligible directors and employees, and will expire on 11th May, 2007. Under the Scheme, the Board of Directors of the Company may at their discretion grant options to executive directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

The maximum number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the issued share capital of the Company at any point in time. The number of shares in respect of which options may be granted to any individual at the grant date is not permitted to exceed 25% of the number of shares issued and issuable under the Scheme.

Options granted must be taken up within 21 days of the date of grant. No consideration is payable on the grant of an option. Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the shares of the Company and 80% of the average closing price of the shares for the five trading days immediately preceding the date of grant.

At 31st March, 2002, no option was granted by the Company under the Scheme.

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### SHARE OPTIONS *(Continued)*

- (b) The share option scheme of L & M Handbag International (the “L & M Handbag Scheme”), was adopted pursuant to a resolution passed on 14th December, 2001 for the purpose of providing incentives to directors and eligible persons. The L & M Handbag Scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 13th December, 2010.

Under the L & M Handbag Scheme, the Board of Directors of L & M Handbag International (the “Director”) may at their discretion grant options to (i) any director, employee or consultant of L & M Handbag International and its subsidiaries (the “Handbag Group”) or a company in which the Handbag Group holds an equity interest or a subsidiary of such company (“Affiliate”); or (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Handbag Group or an Affiliate; or (iii) a company beneficially owned by any director, employee or consultant of the Handbag Group or an Affiliate; or (iv) any customer, supplier or adviser as may be determined by the Directors from time to time to subscribe for the shares of L & M Handbag International (the “Shares”).

Options granted must be taken up within 21 days of the date of grant. The maximum number of Shares in respect of which options may be granted under the L & M Handbag Scheme shall not exceed 10% of the issued share capital of L & M Handbag International at any point in time. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of L & M Handbag International has been obtained in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment. The exercise price is equal to the higher of (i) nominal value of the Shares; (ii) the closing price per share as stated in the Stock Exchange’s daily quotations sheets on the date of the grant of the options; and (iii) the average closing price per share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of the grant of the options.

Since its adoption up to 31st March, 2002, no option was granted by L & M Handbag International under the L & M Handbag Scheme.

### RESERVES

Details of the movements in the reserves of the Group during the year are set out in note 23 to the financial statements.

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## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$55 million for the purpose of expanding its business and revalued its property, plant and equipment at 31st March, 2002. In addition, the carrying value of property, plant and equipment has been reduced by approximately HK\$130 million as a result of the distribution in specie.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### Executive directors

An, David ( <i>Chairman</i> )	(appointed on 12th July, 2002)
Feng Ya Lei	(appointed on 12th July, 2002)
Zhou Nan Zheng	(appointed on 12th July, 2002)
Poon Lai Ming	(resigned on 12th December, 2001)
Lee Wan Keung	(resigned on 12th July, 2002)
Wai Siu Kee	(resigned on 12th July, 2002)
Tung Cheung Kong	(resigned on 12th July, 2002)
Lu Zhongwen (alias Lui Chung Man)	(resigned on 12th July, 2002)

### Independent non-executive directors

Li Wai Keung	(appointed on 12th July, 2002)
Liu Jian	(appointed on 12th July, 2002)
Wong Kai Tung, Tony	(resigned on 12th July, 2002)
Heng Kwo Seng	(resigned on 12th July, 2002)

In accordance with Article 116 of the Company's Articles of Association, Zhou Nan Zheng retires and, being eligible, offers himself for re-election.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

Each of the former executive directors has entered into a service agreement with the Company for an initial period of three years commencing 1st April, 1997, which will continue thereafter unless and until terminated by either party by three months' prior written notice. The service agreements were terminated upon their resignation.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

# Directors' Report

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st March, 2002, the interests of directors and their associates in the ordinary shares of the Company and of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

**(a) Interests in the Company:**

Name of director	Number of ordinary shares in the Company held			
	Personal interest	Family interest	Corporate interest	Other interest
Lee Wan Keung	–	–	–	609,750,000 <i>(Note)</i>
Wai Siu Kee	–	–	–	609,750,000 <i>(Note)</i>
Tung Cheung Kong	6,000,000	–	–	–
Lu Zhongwen (alias Lui Chung Man)	2,000,000	–	–	–
Wong Kai Tung, Tony	–	–	–	–
Heng Kwo Seng	–	–	–	–

**(b) Interests in an associated corporation:**

Name of director	Number of ordinary shares in L & M Handbag International held			
	Personal interest	Family interest	Corporate interest	Other interest
Lee Wan Keung	–	–	–	609,750,000 <i>(Note)</i>
Wai Siu Kee	–	–	–	609,750,000 <i>(Note)</i>
Wong Kai Tung, Tony	–	–	–	–
Heng Kwo Seng	–	–	–	–

*Note:* 609,750,000 ordinary shares in the Company and L & M Handbag International were held by Fortune Star Trading Ltd. ("Fortune Star"), a company wholly-owned by Newcourt Trustees Limited as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Mr. Lee Wan Keung and certain of his family members and Ms. Wai Siu Kee.

Save as disclosed above, none of the directors or any of their associates had any interest in the securities of the Company or any of its associated corporations as at 31st March, 2002 as defined in the SDI Ordinance.

Subsequent to 31st March, 2002, Fortune Star disposed of its entire shareholding in the Company to an independent third party, Extreme Wise Investments Limited.

# Directors' Report

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share options", at no time during the year was the Company, its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the heading "Directors' interests in securities", the Company had not been notified of any interests representing 10% or more of the Company's issued share capital.

## CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 32 to the financial statements. The transactions were approved by the former independent non-executive directors on 28th May, 2002. In the opinion of the then independent non-executive directors, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group (except for the transactions carried out under the licence agreement as detailed in note 32 to the financial statements);
- (ii) either (a) on normal commercial terms; or (b) where there is no available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) either (a) in accordance with the terms of the agreements; or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (iv) within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the heading "Connected transactions", there were no contracts of significance to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

# Directors' Report

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 42% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 15% of the Group's total sales. The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 31% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 11% of the Group's total purchases.

At 31st March, 2002, Fortune Star, a shareholder holding more than 5% of the Company's share capital, had a beneficial interest in one of the Group's five largest suppliers, Lee & Man Industries Company Limited. All transactions between the Group and Lee & Man Industries Company Limited were carried out on normal commercial terms.

Save as disclosed above, none of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers or suppliers of the Group.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2002 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 34 to the financial statements.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation on 26th February, 1993. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board  
**David An**  
*Chairman*

Hong Kong, 23rd July, 2002