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 Ltd. ("Fortune Star"), a company which is incorporated in the British Virgin Islands.

During the year, the Group underwent a series of reorganisation steps in order to rationalise the structure of the Group in preparation for the spin-off of the shares of Lee & Man Handbag International Limited ("L & M Handbag International") on the Stock Exchange. The shares of L & M Handbag International were listed on the Stock Exchange on 16th January, 2002. Details of the reorganisation are set out in the introduction document issued by L & M Handbag International dated 21st December, 2001.

Pursuant to the spin-off proposal, the Company declared and paid to the then shareholders a special distribution in the form of 825,000,000 ordinary shares in L & M Handbag International, representing 100% of its issued share capital, on the basis that one share in L & M Handbag International was distributed for every ordinary share in the Company then held.

Subsequent to the reorganisation, the Group continues to engage in manufacture and sales of audio cassette products and paper packaging products. The principal activities of the Company's principal subsidiaries are set out in note 33.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants ("SSAP(s)"). Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the accumulated profits of the Group as at 1st April, 2000 and 1st April, 2001 by HK$57,750,000 and decreases the accumulated profits of the Company as at 1st April, 2000 and 1st April, 2001 by HK$1,250,000 as a result of derecognition of dividend paid of HK$57,750,000 and dividend income of HK$59,000,000.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Leases

SSAP 14 (Revised) *Leases* has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts and disclosures have been restated in order to achieve a consistent presentation.

Goodwill/Negative goodwill

In the current year, the Group has adopted SSAP 30 *Business Combinations* and has elected not to restate negative goodwill previously credited to reserves. Accordingly, negative goodwill arising on acquisition prior to 1st April, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisition after 1st April, 2001 is capitalised and amortised on a straight line basis over its estimated useful life. Negative goodwill arising on acquisition after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised to income immediately.

Negative goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet as a deduction from assets.

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.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

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.

Rental income, including rentals invoiced in advance, for letting of property under an operating lease, is recognised on a straight line basis over the term of the relevant lease.

Investments in subsidiaries

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

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.

3. 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, 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%

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 SSAP, in which case the impairment loss is treated as a revaluating decrease under that SSAP.

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 SSAP, in which case the reversal of impairment loss is treated as a revaluation increase under that SSAP.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Pension

The Group is a member of 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 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. 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.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

For management purposes, the Group's operations are organised into two operating divisions namely manufacture and sales of audio cassette products and manufacture and sales of paper packaging products. These divisions are the basis on which the Group reports its primary segment information. In January 2002, the business of manufacture and sales of handbags and luggage was discontinued (see note 9). Subsequent to 31st March, 2002, the business of manufacture and sales of audio cassette products was discontinued (see note 34).

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business Segments *(Continued)*

Segment information about these businesses is presented below.

2002

	Continuing operations	Discontinuing operations	Discontinued operations		
	Manufacture and sales of paper packaging products	**Manufacture and sales of audio cassette products**	**Manufacture and sales of handbags and luggage**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER					
External sales	180,385	87,967	536,538	–	804,890
Inter-segment sales	5,954	–	482	(6,436)	–
Total	186,339	87,967	537,020	(6,436)	804,890

Inter-segment sales are charged at prevailing market prices.

RESULTS					
Segment results	22,834	12,468	67,239	–	102,541
Interest income					1,794
Profit from operations					104,335
Finance costs					(944)
Profit before taxation					103,391
Taxation					(5,446)
Profit attributable to shareholders					97,945
BALANCE SHEET					
ASSETS					
Segment assets	276,432	35,879			312,311
Unallocated corporate assets					29,412
Total assets					341,723
LIABILITIES					
Segment liabilities	8,338	11,455			19,793
Unallocated corporate liabilities					5,032
Total liabilities					24,825

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business Segments *(Continued)*

2002 *(Continued)*

	Continuing operations	Discontinuing operations	Discontinued operations	
	Manufacture and sales of paper packaging products	**Manufacture and sales of audio cassette products**	**Manufacture and sales of handbags and luggage**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION				
Capital additions	48,625	1,894	4,693	55,212
Deficit (surplus) arising on revaluation of property, plant and equipment	36	(193)	142	(15)
Depreciation and amortisation	13,402	4,457	6,294	24,153
Bad debts written off	–	–	4,158	4,158

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business Segments *(Continued)*

2001

	Continuing operations	**Discontinuing operations**	**Discontinued operations**		
	Manufacture and sales of paper packaging products	**Manufacture and sales of audio cassette products**	**Manufacture and sales of handbags and luggage**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER					
External sales	218,071	92,231	693,921	–	1,004,223
Inter-segment sales	10,371	–	–	(10,371)	–
Total	228,442	92,231	693,921	(10,371)	1,004,223

Inter-segment sales are charged at prevailing market prices.

RESULTS					
Segment results	37,303	7,274	83,894	–	128,471
Interest income					3,704
Profit from operations					132,175
Finance costs					(1,449)
Profit before taxation					130,726
Taxation					(8,394)
Profit attributable to shareholders					122,332

4. **BUSINESS AND GEOGRAPHICAL SEGMENTS** *(Continued)*

Business Segments *(Continued)*

2001 *(Continued)*

	Continuing operations	**Discontinuing operations**	**Discontinued operations**	
	Manufacture and sales of paper packaging products	**Manufacture and sales of audio cassette products**	**Manufacture and sales of handbags and luggage**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
BALANCE SHEET				
ASSETS				
Segment assets	364,731	41,212	176,885	582,828
Unallocated corporate assets				61,347
Total assets				644,175
LIABILITIES				
Segment liabilities	11,240	10,322	82,433	103,995
Unallocated corporate liabilities				6,946
Total liabilities				110,941
OTHER INFORMATION				
Capital additions	5,260	8,402	4,613	18,275
Deficit arising on revaluation of property, plant and equipment	–	168	–	168
Depreciation and amortisation	14,247	6,989	11,962	33,198

Geographical Segments

The Group's operations are located in United States of America (the "USA"), the People's Republic of China other than Hong Kong (the "PRC"), Europe, Japan and Hong Kong. The Group's operations of audio cassette products are carried out in Japan and the USA and the Group's operations of paper packaging products are carried out in the PRC.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical Segments *(Continued)*

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 profits from operations**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
USA	**394,893**	533,429	**51,706**	61,769
PRC	**180,385**	218,071	**22,834**	37,225
Europe	**144,364**	148,599	**20,495**	17,371
Japan	**49,964**	55,448	**6,597**	4,815
Hong Kong	**13,021**	29,330	**2,814**	5,525
Others	**22,263**	19,346	**3,014**	1,766
	804,890	1,004,223	**107,460**	128,471
Interest income			**1,794**	3,704
Spin-off expenses			**(4,919)**	–
Profits from operations			**104,335**	132,175

Revenue from the Group's discontinued operations was derived principally from the USA of HK$368,858,000 (2001: HK$502,819,000) and Europe of HK$141,090,000 (2001: HK$144,053,000).

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	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**258,609**	301,055	**53,093**	13,521
Hong Kong	**79,814**	319,121	**1,926**	4,492
USA	**3,300**	18,306	**191**	245
Thailand	**–**	5,693	**2**	17
	341,723	644,175	**55,212**	18,275

5. PROFIT FROM OPERATIONS

	2002 HK$'000	2001 HK$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 6)*	**2,256**	3,279
Other staff costs	**105,834**	117,011
Other pension costs and mandatory provident fund contributions	**850**	1,285
Total staff costs	**108,940**	121,575
Auditors' remuneration	**721**	762
Bad debts written off	**4,158**	–
Deficit arising on revaluation of property, plant and equipment	**–**	168
Depreciation and amortisation of property, plant and equipment		
– owned by the Group	**24,153**	33,178
– held under a finance lease	**–**	20
Loss on disposal of property, plant and equipment	**–**	1,086
Spin-off expenses	**4,919**	–
and after crediting:		
Gain on disposal of property, plant and equipment	**151**	–
Interest income	**1,794**	3,704
Surplus arising on revaluation of property, plant and equipment	**15**	–
Rental income from properties, net of negligible outgoings	**1,933**	–

6. DIRECTORS' EMOLUMENTS

	2002	2001
	HK$'000	*HK$'000*
Directors' fees:		
Executive	**–**	–
Independent non-executive	**240**	240
Other emoluments of executive directors:		
Salaries and other benefits	**1,991**	2,746
Bonuses	**–**	102
Pension costs and mandatory provident fund contributions	**25**	191
Total directors' emoluments	**2,256**	3,279

The aggregate emoluments of each of the directors were under HK$1,000,000 for both years.

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.

7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals did not include any executive directors of the Company for both years. The emoluments of the five highest paid individuals are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries and other benefits	**7,251**	8,573
Bonuses	**–**	42
Pension costs and mandatory provident fund contributions	**9**	80
	7,260	8,695

The emoluments were within the following band:

	2002	2001
	Number of employees	Number of employees
HK$1,000,001 to HK$1,500,000	**4**	2
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1

8. FINANCE COSTS

	2002	2001
	HK$'000	*HK$'000*
Interest on		
– bank borrowings wholly repayable within five years	**944**	1,443
– obligations under a finance lease	**–**	6
	944	1,449

9. DISCONTINUED OPERATIONS

In January 2002, the Group disposed of certain subsidiaries which are principally engaged in the manufacture and sales of handbags and luggage by way of a special distribution in specie. Net assets disposed of are set out in note 25.

The results of those subsidiaries for the period from 1st April, 2001 to the date of discontinuance, which have been included in the consolidated financial statements, were as follows:

	1.4.2001 to 31.12.2001	1.4.2000 to 31.3.2001
	HK$'000	*HK$'000*
Turnover	537,020	693,921
Segment results	67,239	83,894
Interest income	1,593	3,209
Profit from operations	68,832	87,103

10. TAXATION

	2002	2001
	HK$'000	*HK$'000*
The charge comprises:		
Taxation of the Company and its subsidiaries		
Hong Kong Profits Tax	**5,408**	7,930
Overseas taxation	**38**	464
	5,446	8,394

10. TAXATION *(Continued)*

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 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.

11. DISTRIBUTIONS

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interim dividend of 6.0 Hong Kong cents (2001: 6.0 Hong Kong cents) per share	**49,500**	49,500	**49,500**	49,500
2001 final dividend of 7.0 Hong Kong cents (2000: 7.0 Hong Kong cents) per share	**57,750**	57,750	**57,750**	57,750
Special distribution in specie	**215,145**	–	**100,250**	–
	322,395	107,250	**207,500**	107,250

The special distribution in specie at the Company level of HK$100,250,000 is stated at the book value of the Company's investment in L & M Handbag International at the date of the distribution.

The special distribution in specie at the Group level of HK$215,145,000 is stated at the net assets value of L & M Handbag International and its subsidiaries (the "Handbag Group") at the date of the distribution.

Following the above distribution in specie, members of the Handbag Group became fellow subsidiaries of the Company.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK$97,945,000 (2001: HK$122,332,000) and the 825,000,000 (2001: 825,000,000) shares in issue during the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Buildings under construction	Furniture, fixtures and equipment	Leasehold improve-ments	Motor vehicles	Moulds	Plant and machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
COST OR VALUATION								
At 1st April, 2001	199,472	–	9,951	15,172	3,458	3,161	55,677	286,891
Currency realignment	69	–	1	–	1	–	8	79
Additions	1,877	3,240	1,155	1,397	768	120	46,655	55,212
Disposals	–	–	(86)	–	(567)	–	(48)	(701)
Eliminated on disposal of subsidiaries	(92,044)	(3,240)	(7,130)	(11,834)	(2,515)	(249)	(13,414)	(130,426)
Adjustment arising on revaluation	(9,615)	–	(561)	(214)	(174)	(456)	(4,966)	(15,986)
Valuation at 31st March, 2002	**99,759**	**–**	**3,330**	**4,521**	**971**	**2,576**	**83,912**	**195,069**
DEPRECIATION AND AMORTISATION								
At 1st April, 2001	–	–	–	–	–	–	–	–
Provided for the year	7,474	–	1,779	700	520	1,052	12,628	24,153
Eliminated on revaluation	(7,474)	–	(1,779)	(700)	(520)	(1,052)	(12,628)	(24,153)
At 31st March, 2002	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
NET BOOK VALUE								
At 31st March, 2002	**99,759**	**–**	**3,330**	**4,521**	**971**	**2,576**	**83,912**	**195,069**
At 31st March, 2001	199,472	–	9,951	15,172	3,458	3,161	55,677	286,891

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's property, plant and equipment were revalued at 31st March, 2002 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.

The surplus of HK$8,167,000 (2001: deficit of HK$20,961,000) arising on the above revaluation has been dealt with as follows:

(i) a surplus of HK$8,152,000 (2001: deficit of HK$20,793,000) has been credited/charged to the asset revaluation reserve; and

(ii) a surplus of HK$15,000 (2001: deficit of HK$168,000) has been credited/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	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Moulds	Plant and machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
Cost	122,142	14,585	5,744	3,649	9,871	130,782	286,773
Accumulated depreciation and amortisation	(20,558)	(11,469)	(1,387)	(3,086)	(9,347)	(63,022)	(108,869)
Net book value							
At 31st March, 2002	**101,584**	**3,116**	**4,357**	**563**	**524**	**67,760**	**177,904**
At 31st March, 2001	196,029	7,966	14,536	1,506	897	37,479	258,413

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	The Group	
	2002	2001
	HK$'000	*HK$'000*
The net book value of the Group's property interests comprises:		
Properties		
– freehold in Thailand	**–**	16,272
– held under medium-term leases in Hong Kong	**8,129**	8,330
– held under medium-term land use rights in the PRC	**72,100**	164,870
– held under long-term land use rights in the PRC	**19,530**	10,000
	99,759	199,472

14. INTERESTS IN SUBSIDIARIES

	The Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares	**311,167**	257,567
Amount due from a subsidiary	**–**	153,190
	311,167	410,757

Details of the Company's principal subsidiaries at 31st March, 2002 are set out in note 33.

The amount due from a subsidiary is unsecured, interest free and was fully repaid during the year.

15. INVENTORIES

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**49,021**	104,294
Work in progress	**2,494**	26,193
Finished goods	**6,567**	24,568
	58,082	155,055

16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK$54,240,000 (2001: HK$106,258,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Less than 1 month	**25,211**	57,892
1 - 2 months	**10,980**	25,622
2 - 3 months	**8,669**	9,158
Over 3 months	**9,380**	13,586
	54,240	106,258

17. AMOUNTS DUE FROM RELATED COMPANIES

The amounts represent balance due from certain subsidiaries of L & M Handbag International, a company which is beneficially owned by Fortune Star, the controlling shareholder of the Company. They are unsecured, interest free and repayable on demand.

18. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$7,238,000 (2001: HK$64,422,000). The aged analysis of trade payables at the balance sheet date is as follows:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Less than 1 month	**5,202**	46,623
1 - 2 months	**1,470**	16,067
2 - 3 months	**566**	1,190
Over 3 months	**–**	542
	7,238	64,422

19. 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.

20. SHORT-TERM BANK BORROWINGS

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Bank loan	**–**	2,340
Trust receipt and import loans	**4,649**	1,452
Bank overdrafts	**55**	2,964
	4,704	6,756

21. SHARE CAPITAL

	2002 & 2001
	HK$'000
Authorised:	
5,000,000,000 ordinary shares of HK$0.10 each	500,000
Issued and fully paid:	
825,000,000 ordinary shares of HK$0.10 each	82,500

There was no change in the Company's share capital in both years.

22. 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, 2002, no option was granted under the scheme.

23. 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	Accumulated profits HK$'000	Total HK$'000
THE GROUP								
At 1st April, 2000								
– as originally stated	136,694	67,131	1,991	2,503	(64,980)	–	258,803	402,142
– prior period adjustment in respect of change in accounting policy for dividend recognition	–	–	–	–	–	–	57,750	57,750
– as restated	136,694	67,131	1,991	2,503	(64,980)	–	316,553	459,892
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 on translation of financial statements of overseas operations	–	–	(3,447)	–	–	–	–	(3,447)
Profit attributable to shareholders	–	–	–	–	–	–	122,332	122,332
Dividends	–	–	–	–	–	–	(107,250)	(107,250)
At 31st March, 2001 – as restated	136,694	32,714	(1,456)	2,503	(64,980)	–	345,259	450,734
Surplus arising on revaluation of property, plant and equipment	–	8,152	–	–	–	–	–	8,152
Realised on depreciation of property, plant and equipment	–	(4,900)	–	–	–	–	4,900	–
Realised on disposal of property, plant and equipment	–	(10,203)	–	–	–	–	10,203	–
Exchange differences arising on translation of financial statements of overseas operations	–	–	(38)	–	–	–	–	(38)
Profit attributable to shareholders	–	–	–	–	–	–	97,945	97,945
Cash dividends *(note 11)*	–	–	–	–	–	–	(107,250)	(107,250)
Realised on distribution in specie *(note 11)*	–	(3,567)	1,370	(2,503)	64,980	–	(275,425)	(215,145)
At 31st March, 2002	**136,694**	**22,196**	**(124)**	**–**	**–**	**–**	**75,632**	**234,398**
THE COMPANY								
At 1st April, 2000								
– as originally stated	136,694	–	–	–	–	191,567	804	329,065
– prior period adjustment in respect of change in accounting policy for dividend recognition	–	–	–	–	–	–	(1,250)	(1,250)
– as restated	136,694	–	–	–	–	191,567	(446)	327,815
Profit attributable to shareholders	–	–	–	–	–	–	107,529	107,529
Dividends	–	–	–	–	–	–	(107,250)	(107,250)
At 31st March, 2001 – as restated	136,694	–	–	–	–	191,567	(167)	328,094
Profit attributable to shareholders	–	–	–	–	–	–	108,089	108,089
Transfer on group reorganisation	–	–	–	–	–	(191,567)	191,567	–
Cash dividends *(note 11)*	–	–	–	–	–	–	(107,250)	(107,250)
Distribution in specie *(note 11)*	–	–	–	–	–	–	(100,250)	(100,250)
At 31st March, 2002	**136,694**	**–**	**–**	**–**	**–**	**–**	**91,989**	**228,683**

23. RESERVES *(Continued)*

The special reserve of the Group represented 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.

The contributed surplus of the Company represented 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. During the year, the contribution surplus was transferred to accumulated profits for paying distribution.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately HK$228.7 million as at 31st March, 2002 (2001: HK$328.1 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, distributions shall be payable out of the profits or other reserves, including the share premium account, of the Company.

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

	2002	2001
	HK$'000	*HK$'000*
Profit before taxation	**103,391**	130,726
Interest income	**(1,794)**	(3,704)
Interest on bank borrowings	**944**	1,443
Interest on obligations under a finance lease	**–**	6
Bad debts written off	**4,158**	–
Depreciation and amortisation of property, plant and equipment	**24,153**	33,198
(Gain) loss on disposal of property, plant and equipment	**(151)**	1,086
(Surplus) deficit arising on revaluation of property, plant and equipment	**(15)**	168
Decrease (increase) in inventories	**22,964**	(20,236)
(Increase) decrease in trade and other receivables	**(2,624)**	12,478
Increase in bills receivable	**(1,862)**	(1,147)
Increase in amounts due from related companies	**(931)**	–
(Decrease) increase in trade and other payables	**(6,926)**	3,624
Increase in bills payable	**658**	–
(Decrease) increase in amount due to a related company	**(4,610)**	4,553
Net cash inflow from operating activities	**137,355**	162,195

25. DISPOSAL OF SUBSIDIARIES

During the year, shareholders of the Company approved a special distribution in specie by distributing all the shares in L & M Handbag International held by the Group. L & M Handbag International was a wholly-owned subsidiary of the Company prior to the distribution.

	2002	2001
	HK$'000	*HK$'000*
Net assets of L & M Handbag International disposed of:		
Property, plant and equipment	**130,426**	–
Inventories	**74,009**	–
Trade and other receivables	**61,199**	–
Bills receivable	**6,726**	–
Amounts due from related companies	**119**	–
Bank balances and cash	**25,559**	–
Trade and other payables	**(72,377)**	–
Taxation payable	**(3,607)**	–
Short-term bank borrowings	**(6,909)**	–
Net assets	**215,145**	–
Analysis of the outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Bank balances and cash disposed of	**(25,559)**	–
Short-term bank borrowings disposed of	**6,909**	–
	(18,650)	–

The subsidiaries disposed of during the year contributed HK$63,383,000 to the Group's net operating cash flows, paid HK$90,491,000 in respect of the net returns on investments and servicing of finance, paid HK$2,150,000 in respect of taxation and utilised HK$4,047,000 for investing activities.

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loan *HK$'000*	Obligations under a finance lease *HK$'000*
At 1st April, 2000	2,749	31
New bank loan raised	2,340	–
Repayment	(2,749)	(31)
At 31st March, 2001	2,340	–
Repayment	(2,340)	–
At 31st March, 2002	**–**	**–**

27. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002 ***HK$'000***	2001 *HK$'000*
Bank balances and cash	**29,412**	61,347
Trust receipt and import loans	**(4,649)**	(1,452)
Bank overdrafts	**(55)**	(2,964)
	24,708	56,931

28. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases in respect of		
– land and buildings	**3,205**	2,727
– equipment	**174**	222
	3,379	2,949

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	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**222**	1,327	**–**	253
In the second to fifth year inclusive	**259**	3,531	**–**	433
Over five years	**–**	824	**–**	–
	481	5,682	**–**	686

Operating lease payments represent rentals payable by the Group for its offices and warehouses. Leases are negotiated for an average term of three years and monthly rentals are fixed during the relevant lease period.

28. OPERATING LEASE ARRANGEMENTS *(Continued)*

The Group as a lessor

Property rental income earned during the year was HK$1,933,000 (2000: nil). The properties are expected to generate rental yields of 8% on an ongoing basis. The properties held have committed tenants for an average term of three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**1,881**	–
In the second to fifth year inclusive	**3,292**	–
	5,173	–

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

29. CAPITAL COMMITMENTS

	The Group	
	2002	2001
	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	**5,121**	22,629

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

30. CONTINGENT LIABILITIES

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Export bills discounted with recourse	**201**	29,098	**–**	–
Guarantees given to banks in respect of credit facilities extended to subsidiaries	**–**	–	**55,500**	191,000

31. PENSIONS

The Group is a member of the Defined Benefit Scheme operated by its former fellow subsidiary 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.

32. CONNECTED TRANSACTIONS AND BALANCES

Lee & Man Industrial Manufacturing Limited ("L & M Industrial Manufacturing"), a wholly-owned subsidiary of the Company, entered into four agreements and subsequent renewals of these 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, 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 "First Connected Transactions") were detailed in the circular of the Company dated 4th August, 2001 and the First Connected Transactions were approved in an extraordinary general meeting of the Company held on 20th August, 2001 (the "EGM").

Pursuant to the group reorganisation to effect the special distribution in specie as set out in note 11, the Group entered into certain transactions, as detailed in notes (e) to (g) below, with the Handbag Group in respect of (i) sales of corrugated cardboard and carton boxes; (ii) use of certain facilities of Handbag Group and (iii) granting of licence for the use of certain premises of the Group. Such transactions (the "Second Connected Transactions") were detailed in the circular of the Company dated 21st December, 2001.

Transactions with L & M Industries and the Handbag Group during the year and the balances with them at the balance sheet date are as follows:

		The Group	
Name of party	**Nature of transactions/balances**	**2002**	2001
		HK$'000	*HK$'000*
L & M Industries	Raw materials purchased *(note a)*	**38,020**	21,977
	Waste paper by-products sold *(note b)*	**3,654**	3,379
	Steam purchased *(note c)*	**1,560**	1,560
	Licence fee received *(note d)*	**674**	627
	Balance due to L & M Industries	**16**	4,626
Handbag Group (note h)	Corrugated cardboard and carton boxes sold *(note e)*	**1,292**	–
	Management fee paid *(note f)*	**360**	–
	Licence fee income received *(note g)*	**470**	–
	Balance due from the Handbag Group	**812**	–

Notes:

a. 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.

32. CONNECTED TRANSACTIONS AND BALANCES *(Continued)*

b. 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.

c. 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, 2001 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.

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 on the same terms on 10th July, 2001 for a period of one year.

e. The Group has agreed to supply and sell corrugated cardboard and carton boxes from time to time to the Handbag Group. The selling prices are negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions, on normal commercial terms and at arm's length basis.

f. Pursuant to the management agreement entered into between the Company and L & M Handbag International on 14th December, 2001, L & M Handbag International 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 Group for a term of three years commencing 1st January, 2002 for a monthly management fee of HK$120,000.

g. Pursuant to two licence agreements entered into between Lee & Man Realty Investment Limited ("L & M Realty"), a wholly-owned subsidiary of the Company, and Lee & Man Management Company Limited ("L & M Management"), a wholly-owned subsidiary of L & M Handbag International, on 14th December, 2001, L & M Realty has agreed to grant licences to L & M Management and subsidiaries of L & M Handbag International to enter into possession of and occupy certain office space of the Group for a term of three years commencing 1st January, 2002 for a total monthly licence fee of HK$156,750.

h. Transactions with the Handbag Group are disclosed only to the extent that they were carried out subsequent to the special distribution in specie as set out in note 11.

33. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Principal activities #
Capital Nation Investments Limited ("Capital Nation")	British Virgin Islands	Shares – US$1	Investment holding
Lee & Man Industrial Manufacturing Limited ("L & M Industrial Manufacturing")	Cayman Islands	Share – US$1	Manufacture of audio cassette products and corrugated paper packaging products in the PRC
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 And Man Manufacturing Company Limited ("L & M Manufacturing")	Hong Kong	Ordinary shares – HK$1,000 Non-voting deferred shares – HK$500,000	Marketing of audio cassette products
L & M Realty	Hong Kong	Ordinary shares – HK$10,000 Non-voting deferred shares – HK$2,000	Property holding

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

33. PRINCIPAL SUBSIDIARIES *(Continued)*

Only Capital Nation 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.

34. POST BALANCE SHEET EVENTS

Subsequent to 31st March, 2002, the following significant events took place:

(a) The Group disposed of its entire interest in the audio cassette business and 49% interest in the paper business to a then fellow subsidiary.

The transactions were completed on 14th June, 2002. Details of the transaction are set out in a circular of the Company dated 21st May, 2002. Following the completion of the transactions, in June 2002, the business of manufacture and sales of audio cassette products was discontinued. The turnover and results of the relevant operations for the year ended 31st March, 2002 are set out in note 4.

A special dividend of HK$193,875,000, representing HK$0.235 per share, was paid on 21st June, 2002.

(b) Fortune Star disposed its entire interest in the Company and ceased to be the Company's ultimate holding company.