Notes to the Financial Statements

For the year ended 31st March 2003

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 Extreme Wise Investments Limited, a company which is incorporated in the British Virgin Islands.

The Company acts as an investment holding company and the principal activities of its principal subsidiaries are set out in note 30.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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. The adoption of these SSAPs has resulted in a change in the format of presentation of the consolidated cash flow statement and an inclusion of the consolidated statement of changes in equity, but has had no material impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Further details on the impact of the adoption of these SSAPs are as follows:

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has had no material effect on the results for the current or prior accounting periods.

Cash flow statements

Under SSAP 15 (Revised) "Cash Flow Statements", cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest received and interest paid, which were previously presented under a separate heading, are classified as investing cash flows and operating cash flows respectively, while dividend paid is classified as financing cash flows. Cash flows arising from taxes on income are classified as operating activities. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

Employee benefits

SSAP 34 "Employee Benefits" introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the defined benefit retirement benefit plan. In prior years, the cost of providing retirement benefits under this plan was determined using a projected benefit valuation method, with actuarial valuations carried out every three years. Actuarial gains and losses and past service cost were spread systematically over the expected remaining working lives of existing employees, irrespective of the date of vesting.

Under SSAP 34, the cost of providing retirement benefits under the defined benefit retirement benefit plan is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the employees participating in the plan.

The effect of this change in accounting policy has had no material effect on the results for prior accounting periods. Accordingly, no prior period adjustment has been required. The full effect has been recognised in current year and it has resulted in a decrease of the profit for the year by HK$110,000 (2002: nil), the details of which are set out in note 28.

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)*

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at rates prevailing 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 transferred to the Group's translation reserve. Such translation differences are recognized 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 recognized 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 recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment 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 amortization 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 recognized 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 valuation of leasehold land and land use rights is amortised over the period of the lease or rights respectively using the straight line method.

Depreciation and amortization 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%

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 recognized in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 recognized 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized 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 realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme (the “MPF Scheme”) are charged as an expense as they fall due.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out annually. Actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses, and as reduced by the fair value of plan assets.

3. 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 recognized in the financial statements. The tax effect of timing differences, computed using the liability method, is recognized as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallize 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 organized into two operating divisions namely manufacture and sales of paper packaging products and trading of petroleum products. These divisions are the basis on which the Group reports its primary segment information. In June 2002, the business of manufacture and sales of audio cassette products was discontinued.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business Segments *(continued)*

Segment information about these businesses is presented below:

2003

	Continuing operations		Discontinued operation	
	Manufacture and sales of paper packaging products HK$'000	Trading of petroleum products HK$'000	Manufacture and sales of audio cassette products HK$'000	Consolidated HK$'000
TURNOVER				
External sales	239,531	62,381	12,096	314,008
RESULTS				
Segment results	17,890	(2,676)	2,877	18,091
Interest income				218
Unallocated corporate expenses				(1,556)
Profit from operations				16,753
Interest on bank borrowings wholly repayable within five years				(212)
Loss on disposal and partial disposal of interests in subsidiaries				(18,390)
Loss before taxation				(1,849)
Taxation				(169)
Loss before minority interests				(2,018)
Minority interests				(2,362)
Loss attributable to shareholders				(4,380)
BALANCE SHEET				
ASSETS				
Segment assets	247,028	591		247,619
Unallocated corporate assets				37,115
Total assets				284,734
LIABILITIES				
Segment liabilities	8,552	13		8,565
Unallocated corporate liabilities				463
Total liabilities				9,028
OTHER INFORMATION				
Capital additions	6,403	273	—	6,676
Depreciation and amortisation	15,395	34	363	15,792
Bad debts written off	8,559	—	—	8,559
Loss (gain) on disposal of property, plant and equipment	395	—	(4)	391

Notes to the Financial Statements

For the year ended 31st March 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business Segments *(continued)*

2002

	Continuing operation	Discontinued operations			
	Manufacture and sales of paper packaging products HK$'000	Manufacture and sales of audio cassette products HK$'000	Manufacture and sales of handbags and luggage HK$'000	Elimination HK$'000	Consolidated 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	68,400	—	103,702
Interest income					1,794
Unallocated corporate expenses					(1,161)
Profit from operations					104,335
Interest on bank borrowings wholly repayable within five years					(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
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)*

Geographical Segments

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

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	
	2003	2002
	HK$'000	HK$'000
PRC	**301,912**	180,385
USA	**5,211**	394,893
Japan	**3,675**	49,964
Europe	**570**	144,364
Others	**2,640**	35,284
	314,008	804,890

Revenue from the Group's discontinued operations was derived principally from the USA of HK$5,211,000 (2002: HK$26,035,000) and Japan of HK$3,675,000 (2002: HK$43,316,000).

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	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**248,254**	258,609	**6,400**	53,093
Hong Kong	**36,480**	79,814	**276**	1,926
USA	**—**	3,300	**—**	191
Thailand	**—**	—	**—**	2
	284,734	341,723	**6,676**	55,212

Notes to the Financial Statements

For the year ended 31st March 2003

5. PROFIT FROM OPERATIONS

	2003 HK$'000	2002 HK$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 6)*	**1,805**	2,256
Other staff costs	**15,233**	105,834
Other retirement benefits scheme contributions	**136**	850
Total staff costs	**17,174**	108,940
Auditors' remuneration	**521**	721
Bad debts written off	**8,559**	4,158
Depreciation and amortization	**15,792**	24,153
Loss on disposal of property, plant and equipment	**391**	—
Spin-off expenses	**—**	4,919
and after crediting:		
Gain on disposal of property, plant and equipment	**—**	151
Interest income	**218**	1,794
Surplus arising on revaluation of property, plant and equipment	**—**	15
Rental income from properties, net of negligible outgoings	**1,708**	1,933

6. DIRECTORS' EMOLUMENTS

	2003 HK$'000	2002 HK$'000
Directors' fees:		
Executive	**—**	—
Independent non-executive	**280**	240
Other emoluments of executive directors:		
Salaries and other benefits	**1,510**	1,991
Retirement benefits scheme contributions	**15**	25
Total directors' emoluments	**1,805**	2,256

6. DIRECTORS' EMOLUMENTS *(continued)*

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

Of the five individuals with the highest emoluments in the Group, two (2002: Nil) were directors of the Company whose emoluments are included in the disclosure in note 6 above. The emoluments of the remaining three (2002: five) individuals are as follows:

	2003	2002
	HK$'000	HK$'000
Salaries and other benefits	**1,434**	7,251
Retirement benefits scheme contributions	**24**	9
	1,458	7,260

The emoluments were within the following band:

	2003 Number of employees	2002 Number of employees
NIL to HK$1,000,000	**3**	—
HK$1,000,001 to HK$1,500,000	**—**	4
HK$2,000,001 to HK$2,500,000	**—**	1

8. DISCONTINUED OPERATIONS

In June 2002, the Group disposed of certain subsidiaries which are principally engaged in the manufacture and sales of audio cassette products. Net assets disposed of are set out in note 23.

8. DISCONTINUED OPERATIONS *(continued)*

The results of those disposed subsidiaries for the period from 1st April 2002 to the date of discontinuance, which have been included in the consolidated financial statements, were as follows:

	1.4.2002 to 14.6.2002 HK$'000	1.4.2001 to 31.3.2002 HK$'000
Turnover	12,096	87,967
Segment results	2,877	12,468
Interest income	3	68
Profit from operations	2,880	12,536

9. TAXATION

	2003 HK$'000	2002 HK$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
Hong Kong Profits Tax	**169**	5,408
Overseas taxation	**—**	38
	169	5,446

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.

9. TAXATION *(continued)*

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.

10. DISTRIBUTIONS

	The Group		The Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Special interim dividend of 23.5 Hong Kong cents per share	**193,875**	—	**193,875**	—
Interim dividend of 6.0 Hong Kong cents per share	—	49,500	—	49,500
2001 final dividend of 7.0 Hong Kong cents per share	—	57,750	—	57,750
Special distribution in specie	—	215,145	—	100,250
	193,875	322,395	**193,875**	207,500

For the year ended 31st March 2002, the special distribution in specie at the Company level of HK$100,250,000 was stated at the book value of the Company's investment in Lee & Man Handbag International Limited ("L & M Handbag International") at the date of the distribution.

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

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss attributable to shareholders of HK$4,380,000 (2002: profit of HK$97,945,000) and on the weighted average number of 919,932,000 (2002: 825,000,000) shares in issue during the year.

Notes to the Financial Statements

For the year ended 31st March 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Leasehold improve-ments HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Plant and machinery HK$'000	Total HK$'000
THE GROUP							
VALUATION							
At 1st April 2002	99,759	3,330	4,521	971	2,576	83,912	195,069
Currency realignment	—	3	—	8	—	62	73
Additions	—	677	—	93	—	5,906	6,676
Disposals	—	(5)	—	(9)	—	(551)	(565)
Eliminated on disposal of subsidiaries	(8,129)	(1,985)	(1,231)	(595)	(2,519)	(15,385)	(29,844)
Adjustment arising on revaluation	(4,070)	(365)	(150)	(82)	(57)	(9,273)	(13,997)
Valuation at 31st March 2003	87,560	1,655	3,140	386	—	64,671	157,412
DEPRECIATION AND AMORTISATION							
At 1st April 2002	—	—	—	—	—	—	—
Provided for the year	4,456	420	206	138	56	10,516	15,792
Eliminated on revaluation	(4,456)	(420)	(206)	(138)	(56)	(10,516)	(15,792)
At 31st March 2003	—	—	—	—	—	—	—
NET BOOK VALUE							
At 31st March 2003	87,560	1,655	3,140	386	—	64,671	157,412
At 31st March 2002	99,759	3,330	4,521	971	2,576	83,912	195,069

The Group's property, plant and equipment were revalued at 31st March 2003 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.

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The surplus of HK$1,795,000 (2002: HK$8,167,000) arising on the above revaluation has been dealt with as follows:

(i) a surplus of HK$1,795,000 (2002: HK$8,152,000) has been credited to the asset revaluation reserve; and

(ii) no surplus (2002: HK$15,000) has been credited 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	107,610	5,031	3,041	1,962	—	97,339	214,983
Accumulated depreciation and amortisation	(22,652)	(3,734)	(811)	(1,879)	—	(42,334)	(71,410)
Net book value							
At 31st March 2003	84,958	1,297	2,230	83	—	55,005	143,573
At 31st March 2002	101,584	3,116	4,357	563	524	67,760	177,904

	The Group 2003 HK$'000	The Group 2002 HK$'000
The net book value of the Group's property interests comprises:		
Properties		
— held under medium-term leases in Hong Kong	**—**	8,129
— held under medium-term land use rights in the PRC	**68,900**	72,100
— held under long-term land use rights in the PRC	**18,660**	19,530
	87,560	99,759

13. INTERESTS IN SUBSIDIARIES

	The Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares	**158,706**	311,167
Amount due from subsidiaries	**12,065**	—
	170,771	311,167

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

Details of the Company's principal subsidiaries at 31st March 2003 are set out in note 30.

14. INVENTORIES

	The Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**38,371**	49,021
Work in progress	**—**	2,494
Finished goods	**1,065**	6,567
	39,436	58,082

15. 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$46,714,000 (2002: HK$54,240,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	The Group	
	2003	2002
	HK$'000	HK$'000
Less than 30 days	**18,259**	25,211
31 – 60 days	**12,069**	10,980
61 – 90 days	**9,720**	8,669
Over 90 days	**6,666**	9,380
	46,714	54,240

16. AMOUNTS DUE FROM RELATED COMPANIES

The amounts represent trading balances due from certain subsidiaries of L & M Handbag International and Lee And Man Manufacturing Company Limited ("L & M Manufacturing"). L & M Handbag International is beneficially owned by Fortune Star Tradings Ltd. ("Fortune Star") and Fortune Star is an associate of Mr. Lee Wan Keung ("Mr. Lee") who is a director of a subsidiary of the Company. L & M Manufacturing is beneficially owned by Mr. Lee. The amounts are unsecured, interest free and repayable on demand.

17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$3,940,000 (2002: HK$7,238,000). The aged analysis of trade payables at the balance sheet date is as follows:

	The Group	
	2003	2002
	HK$'000	HK$'000
Less than 30 days	**2,313**	5,202
31 – 60 days	**1,596**	1,470
61 – 90 days	**31**	566
	3,940	7,238

18. AMOUNT DUE TO A RELATED COMPANY

The balance represents trading balance due to Lee & Man Industries Company Limited ("L & M Industries") which is wholly-owned by Fortune Star. It is unsecured, interest free and repayable on demand.

19. SHORT-TERM BANK BORROWINGS

	The Group	
	2003	2002
	HK$'000	HK$'000
Bank overdraft	**34**	55
Trust receipt and import loans	**—**	4,649
	34	4,704

20. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st April 2001, 31st March 2002 & 31st March 2003	5,000,000,000	500,000
Issued and fully paid:		
At 1st April 2001 and 31st March 2002	825,000,000	82,500
Issue of shares	165,000,000	16,500
At 31st March 2003	990,000,000	99,000

Pursuant to a placing agreement entered into on 21st August 2002 between the Company and the placing agent, 165,000,000 shares of HK$0.10 each in the Company were placed to independent investors at a price of HK$0.23 per share. The net proceeds were used to provide additional working capital for the Group. These new shares were issued under the general mandate granted to the directors at an extraordinary general meeting of the Company held on 20th August 2001 and rank pari passu with other shares in issue in all aspects.

21. SHARE OPTION SCHEMES

Pursuant to resolution passed on 12th May 1997, the Company adopted a share option scheme (the "Old Scheme") for recognition of past services contributed by the eligible directors and employees. Under the Old Scheme which was to terminate on 11th May 2007, the Board of Directors of the Company (the "Directors") might 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 might be granted under the Old Scheme was 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 might be granted to any individual at the grant date was not permitted to exceed 25% of the number of shares issued and issuable under the Old Scheme.

Options granted had to be taken up within 21 days of the date of grant. No consideration was payable on the grant of an option. Options might 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 Directors might at their discretion determine the specific exercise period. The exercise price was determined by the Directors, and would 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.

No option was granted by the Company under the Old Scheme.

On 16th December 2002, the Company passed an ordinary resolution regarding the termination of the Old Scheme and adopted a new share option scheme (the "New Scheme") for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are valuable to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The New Scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 15th December 2012.

Under the New Scheme, the Directors may at their discretion grant options to (i) any director of the Company or any company in which the Company holds an equity interest; or (ii) any employee; (iii) any consultant, agent, business affiliate, professional and other advisor, business partner, joint venture partner, strategic partner, or any supplier or provider of goods or services to the Company or any subsidiaries of the Company as may be determined by the Directors from time to time to subscribe for the shares of the Company (the "Shares").

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For the year ended 31st March 2003

21. SHARE OPTION SCHEMES *(continued)*

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per option. The maximum number of Shares in respect of which options may be granted under the New Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the New Scheme. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the shareholders' approval in general meeting. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to 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 the Company has been obtained in accordance with the Rules Governing the Listing of Securities on the Stock Exchange. Options granted to substantial shareholders or independent non-executive directors in excess of issued share capital of the Company or with a value in excess of HK$5 million must be approved n advance by the shareholders of the Company.

Options may be exercised at any time from date of grant of the share option to the 10th anniversary of the date of grant as may be determined by the Directors. The exercise price is determined by the Directors, and will not be less than the higher of 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 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.

No option was granted by the Company under the New Scheme.

22. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000
THE COMPANY				
At 1st April 2001	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	—	—	(107,250)	(107,250)
Distribution in specie	—	—	(100,250)	(100,250)
At 31st March 2002	136,694	—	91,989	228,683
Issue of shares	21,450	—	—	21,450
Expenses incurred in connection with issue of shares	(656)	—	—	(656)
Profit attributable to shareholders	—	—	40,260	40,260
Special dividend *(note 10)*	(60,502)	—	(133,373)	(193,875)
At 31st March 2003	96,986	—	(1,124)	95,862

The Company's reserves available for distribution to its shareholders comprise share premium and accumulated profits (losses) which in aggregate amounted to approximately HK$95.9 million as at 31st March 2003 (2002: HK$228.7 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.

23. DISPOSAL OF SUBSIDIARIES

a. As referred in note 8, the Group disposed of certain subsidiaries which are principally engaged in the manufacture and sales of audio cassette products.

The net assets disposed of are as follows:

	2003 HK$'000	2002 HK$'000
Net assets disposed of:		
Property, plant and equipment	**29,844**	130,426
Inventories	**23,702**	74,009
Trade and other receivables	**14,691**	61,199
Bills receivable	**—**	6,726
Tax recoverable	**380**	—
Amount due from related companies	**—**	119
Bank balances and cash	**13,030**	25,559
Trade and other payables	**(24,896)**	(72,377)
Amount due to related companies	**(56,586)**	—
Taxation payable	**—**	(3,607)
Bank overdraft	**—**	(6,909)
Net assets	**165**	215,145
Translation reserve realised	**88**	—
Gain on disposal of interests in subsidiaries	**3,998**	—
	4,251	215,145
Satisfied by:		
Cash consideration	**50,000**	—
Settlement of current accounts due to purchaser	**(45,749)**	—
Distribution in specie	**—**	215,145
Net cash consideration	**4,251**	215,145
Analysis of the outflow of cash and cash equivalents in connection with the disposal of interests in subsidiaries:		
Bank balances and cash disposed of	**(13,030)**	(25,559)
Bank overdraft disposed of	**—**	6,909
Net cash consideration	**4,251**	—
	(8,779)	(18,650)

23. DISPOSAL OF SUBSIDIARIES *(continued)*

b. In addition, the Group disposed of 49% interest in Capital Nation Investments Limited ("Capital Nation") for a cash consideration of HK$93,100,000. After the disposal, Capital Nation remains a 51% owned subsidiary of the Group. The disposal resulted in a loss of HK$22,388,000 to the Group.

24. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

	The Group	
	2003	2002
	HK$'000	HK$'000
Minimum lease payments paid under operating leases in respect of		
— land and buildings	**1,156**	3,205
— equipment	**—**	174
	1,156	3,379

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

	The Group	
	2003	2002
	HK$'000	HK$'000
Within one year	**981**	222
In the second to fifth year inclusive	**291**	259
	1,272	481

Operating lease payments represent rentals payable by the Group for its offices and warehouses. Leases are negotiated for an average of two years with fixed rental.

The Group as a lessor

Property rental income earned during the year was HK$1,708,000 (2002: HK$1,933,000). Certain of the Group's properties, with a carrying amount of HK$8 million, were disposed of in June 2002. The remaining properties are held for production and administrative purposes.

24. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as a lessor *(continued)*

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

	The Group	
	2003	2002
	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.

25. PLEDGE OF ASSETS

At 31st March 2003, a bank deposit of HK$7,819,000 (2002: nil) was pledged to a bank to secure credit facilities granted to the Group.

26. CAPITAL COMMITMENTS

	The Group	
	2003	2002
	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

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

27. CONTINGENT LIABILITIES

	The Group		The Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Export bills discounted with recourse	**—**	201	**—**	—
Guarantees given to banks in respect of credit facilities extended to subsidiaries	**—**	—	**—**	55,000
Guarantees given to a supplier in respect of credit facilities extended to a subsidiary	**7,800**	—	**7,800**	—

28. RETIREMENT BENEFITS PLANS

Defined benefit plan

The Group is a member of the defined benefit plan which was open to qualified employees of companies under the control of Fortune Star. In December 2000, all the then existing members of the defined benefit plan were enrolled into a MPF Scheme and their accrued benefits for the past services under the defined benefit plan were frozen as at 30th November 2000. The defined benefit plan was closed to new employees from December 2000 onwards.

Under the defined benefit plan, employees are entitled to retirement benefits varying between 0 and 100% of final salary multiplied by the pensionable service on attainment of a retirement age of 55. No other post-retirement benefits are provided.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at 31st March 2003 by Mr. Norm Lau of HSBC Life (International) Limited, Fellow of the Society of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

	2003	2002
Discount rate	**5.0%**	5.0%
Expected return on plan assets	**5.0%**	5.0%
Expected rate of salary increase	**0%**	0%

28. RETIREMENT BENEFITS PLANS *(continued)*

Defined benefit plan *(continued)*

The actuarial valuation showed that the market value of plan assets at 31st March 2003 was HK$1,283,000 (2002: HK$2,755,000) and that the actuarial value of these assets represented 89% (2002: 88%) of the benefits that were accrued to members.

The charge recognised in the consolidated income statement in respect of the defined benefit plan is as follows:

	2003 HK$'000	2002 HK$'000
Interest cost	85	132
Expected return on plan assets	(80)	(115)
Net actuarial losses	105	—
Amount not recognised in income statement	—	(17)
Total, included in administrative expenses	110	—

The actual return on plan assets for the year was HK$79,000 (2002: HK$125,000).

The amount included in the balance sheet in respect of the Group's defined benefit plan is as follows:

	2003 HK$'000	2002 HK$'000
Fair value of plan assets	1,283	2,755
Unrecognised actuarial losses	43	378
Present value of funded obligations	(1,436)	(3,133)
	(110)	—

The fair value of plan assets does not include any equity shares in the Company and property held by the Group.

28. RETIREMENT BENEFITS PLANS *(continued)*

Defined benefit plan *(continued)*

Movements in the net liability in the year were as follows:

	HK$'000
At beginning of the year	—
Amounts charged to income	(110)
At end of the year	(110)

Defined contribution plan

The Group operates a MPF Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a fixed percentage of relevant monthly payroll costs to the MPF Scheme.

29. CONNECTED PARTY TRANSACTIONS AND BALANCES

Lee & Man Industrial Manufacturing Limited ("L & M Industrial Manufacturing"), a 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 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").

In addition, 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 the 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.

29. CONNECTED PARTY TRANSACTIONS AND BALANCES *(continued)*

Transactions with connected parties during the year and the balances with them at the balance sheet date are as follows:

	Notes	2003 HK$'000	2002 HK$'000
L & M Industries			
Raw materials purchased	*a*	**90,943**	38,020
Waste paper by-products sold	*b*	**5,349**	3,654
Steam purchased	*c*	**1,560**	1,560
Licence fee received	*d*	**674**	674
Balance due to L & M Industries		**684**	16
Handbag Group			
Corrugated cardboard and carton boxes sold	*e*	**7,445**	1,292
Management fee paid	*f*	**871**	360
Licence fee income received	*g*	**314**	470
Balance due from Handbag Group		**1,127**	812
Fortune Star			
Disposal and partial disposal of interests in subsidiaries	*h*	**143,100**	—
Lee & Man Realty Investment Limited			
("L & M Realty")	*i*		
Licence fee paid	*j*	**96**	—
L & M Manufacturing			
Corrugated cardboard and carton boxes sold	*k*	**396**	—
Balance due from L & M Manufacturing		**116**	—
Mr. Lee			
Management fee paid	*l*	**3,983**	—
Guarantee given to banks in respect of credit facilities extended to the Group	*m*	**53,000**	—

29. CONNECTED PARTY TRANSACTIONS AND BALANCES *(continued)*

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.

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 2002 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 to be 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 2002 for a period of one year.

29. CONNECTED PARTY TRANSACTIONS AND BALANCES *(continued)*

Notes: (continued)

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 a 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 L & M Realty, a former 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. In June 2002, the Group disposed of certain subsidiaries and 49% interest in Capital Nation to Good Partner Trading Limited, a wholly-owned subsidiary of Fortune Star which was the Company's former holding company, at a total consideration of HK$143,100,000. Details of the transactions are set out in a circular of the Company dated 21st May 2002.

i. Mr. Lee has a beneficial interest in L & M Realty.

j. The licence fee was charged on a proportional cost basis consistent with its other licences granted.

k. The selling prices are negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions.

l. Pursuant to a service agreement entered into between Capital Nation and Mr. Lee on 14th June 2002, Mr. Lee has agreed to manage the business of Capital Nation for a term of 10 years for a service fee of HK$5 million per annum, which fee is payable in four equal quarterly instalment in advance. This agreement was approved in an extraordinary general meeting of the Company held on 14th June 2002.

m. The guarantee was provided by Mr. Lee without charge.

30. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March 2003 are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities#
Capital Nation Investments Limited	British Virgin Islands	Shares — US$100	51%	—	Investment holding
Lee & Man Industrial Manufacturing Limited	Cayman Islands	Share — US$1	—	51%	Manufacture of 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	—	51%	Provision of procurement services
Oriental Point International Limited	Hong Kong	Ordinary shares — HK$2	—	100%	Trading of petroleum products in the PRC
Timeslink Development Limited	Hong Kong	Ordinary shares — HK$10,000	100%	—	Provision of management services

The principal activities of the Company's subsidiaries are carried out in Hong Kong except as otherwise stated under principal activities above.

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.