

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 1. GENERAL

The Company is 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 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 (“SSAP(s)”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies. The revised accounting policies as 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. 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.

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (CONTINUED)

### Employee Benefits

SSAP 34 “Employee benefits” introduces measurement rules for employee benefits, including retirement benefit schemes. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group’s defined benefit retirement benefit scheme. In prior years, the cost of providing retirement benefits under this scheme 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 scheme 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 scheme.

As a result of the changes described above, the Group has determined the transitional asset for its defined benefit scheme at the date of adoption of SSAP 34 as HK\$4,029,000 more than the asset that would have been recognised as the same date using the previous accounting policy. This amount has been recognised immediately, with an adjustment of HK\$4,029,000 to the opening balance of accumulated profits at 1 April 2001. The change in policy has resulted in an increase in the profit for the year ended 31 March 2003 by HK\$211,000 (2002: HK\$212,000).

## 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 31 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.

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 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 exchange 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 recognised as income or as expenses in the period in which the operation is disposed of.

### **Turnover**

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

### **Revenue recognition**

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

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

### **Investments in subsidiaries**

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

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 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 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 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.

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 other property, plant and equipment 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 recognised in the income statement.

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 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 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 revaluation 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 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 retirement benefit schemes, 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 fair value of plan assets as adjusted for unrecognised actuarial gains and losses, and as reduced by the present value of the defined benefit obligation.

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 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 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 respective leases.

# Notes to the Financial Statements

For the year ended 31 March 2003

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

### Geographical segments

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

	Sales revenue by geographical market		Contribution to profit form operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
United States of America	690,788	493,197	91,722	58,581
Europe	176,588	172,637	29,724	20,506
Hong Kong	23,311	18,279	2,966	3,719
South America	11,324	6,753	2,000	802
Japan	8,917	6,659	1,427	791
Others	8,333	6,266	320	744
	<b>919,261</b>	<b>703,791</b>	<b>128,159</b>	<b>85,143</b>
Interest income			536	1,704
Interest on bank borrowings wholly repayable within five years			(396)	(934)
Profit before taxation			<b>128,299</b>	85,913
Taxation			<b>(12,616)</b>	(6,635)
Profit attributable to shareholders			<b>115,683</b>	79,278

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

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Geographical segments (continued)

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
People's Republic of China (the "PRC")	188,560	177,069	13,729	5,386
Hong Kong	175,705	88,714	864	637
United States of America	52,540	28,695	941	1,450
Thailand	20,109	20,245	–	2
	<b>436,914</b>	<b>314,723</b>	<b>15,534</b>	<b>7,475</b>

## 5. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments ( <i>note 6</i> )	4,434	3,827
Other staff costs	132,504	103,604
Other retirement benefits scheme contributions	923	880
Total staff costs	<b>137,861</b>	108,311
Auditors' remuneration	558	427
Bad debts written off	925	4,158
Deficit arising on revaluation of property, plant and equipment	1,962	773
Depreciation and amortisation	10,786	10,543
Listing expenses written off	–	4,919
Loss on disposal of property, plant and equipment	3,181	37
and after crediting:		
Interest income	536	1,704



# Notes to the Financial Statements

For the year ended 31 March 2003

## 6. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	340	100
Other emoluments of executive directors:		
Salaries and other benefits	3,990	3,621
Bonuses	46	46
Retirement benefits scheme contributions	58	60
	<b>4,434</b>	<b>3,827</b>

The emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
Up to HK\$1,000,000	8	9
HK\$1,000,001 to HK\$1,500,000	2	1

During the years ended 31 March 2002 and 31 March 2003, 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 for both years.

## 7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals did not include (2002: included one) executive director of the Company. The emoluments of the five (2002: four) highest paid individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	9,642	8,335
Bonuses	17,735	–
	<b>27,377</b>	<b>8,335</b>

# Notes to the Financial Statements

For the year ended 31 March 2003

## 7. EMPLOYEES' EMOLUMENTS (CONTINUED)

The emoluments were within the following bands:

	2003 Number of employees	2002 Number of employees
HK\$1,500,001 to HK\$2,000,000	3	3
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$15,000,001 to HK\$15,500,000	1	–

## 8. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Taxation of the Company and its subsidiaries		
Hong Kong Profits Tax	12,586	6,615
Overseas taxation	30	20
	<b>12,616</b>	<b>6,635</b>

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.

# Notes to the Financial Statements

For the year ended 31 March 2003

## 9. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend paid of HK\$0.03 per share	24,750	–
Final dividend proposed of HK\$0.05 per share	41,250	–
Final dividend	–	59,000
Interim dividend	–	32,250
	<b>66,000</b>	<b>91,250</b>

For the year ended 31 March 2003, the final dividend of HK\$0.05 per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

For the year ended 31 March 2002, no dividend was paid or declared by the Company. The above dividends represented dividends paid by the subsidiaries to their then shareholders prior to the group reorganisation in December 2001.

## 10. EARNINGS PER SHARE

For the year ended 31 March 2003, the calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$115,683,000 and 825,000,000 shares in issue during the year.

For the year ended 31 March 2002, the calculation of the basic earnings per share was based on the profit attributable to shareholders of HK\$79,278,000 and 825,000,000 shares on the basis that all shares issued pursuant to the group reorganisation in December 2001 had been in issue during that year.

# Notes to the Financial Statements

For the year ended 31 March 2003

## 11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
<b>COST OR VALUATION</b>							
At 1 April 2002	92,985	7,846	11,441	1,997	212	13,038	127,519
Currency realignment	199	–	–	1	–	22	222
Additions	10,328	2,963	263	201	–	1,779	15,534
Disposals	(3,125)	(26)	–	–	–	(44)	(3,195)
Adjustment arising on revaluation	(6,189)	(1,965)	(937)	(377)	(33)	(1,647)	(11,148)
Valuation at 31 March 2003	94,198	8,818	10,767	1,822	179	13,148	128,932
<b>DEPRECIATION AND AMORTISATION</b>							
At 1 April 2002	–	–	–	–	–	–	–
Provided for the year	4,852	1,836	931	520	71	2,576	10,786
Eliminated on revaluation	(4,852)	(1,836)	(931)	(520)	(71)	(2,576)	(10,786)
At 31 March 2003	–	–	–	–	–	–	–
<b>NET BOOK VALUE</b>							
<b>At 31 March 2003</b>	<b>94,198</b>	<b>8,818</b>	<b>10,767</b>	<b>1,822</b>	<b>179</b>	<b>13,148</b>	<b>128,932</b>
At 31 March 2002	92,985	7,846	11,441	1,997	212	13,038	127,519

The Group's property, plant and equipment, other than property interests situated in Thailand, were revalued at 31 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.

The Group's property interests situated in Thailand were revalued at 31 March 2003 by Thai Property Appraisal Vigers (Thailand) Co., Ltd., an independent firm of professional property valuers, on the basis of open market value in existing use.

# Notes to the Financial Statements

*For the year ended 31 March 2003*

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

The net deficit of HK\$362,000 (2002: surplus of HK\$3,755,000) arising on the above revaluation has been dealt with as follows:

- (i) a surplus of HK\$1,600,000 (2002: HK\$4,528,000) has been credited to the asset revaluation reserve; and
- (ii) a deficit of HK\$1,962,000 (2002: HK\$773,000) has been charged to the consolidated income statement.

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

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>							
Cost	123,103	16,586	17,963	8,773	887	36,519	203,831
Accumulated depreciation and amortisation	(27,683)	(11,159)	(7,968)	(8,207)	(882)	(29,522)	(85,421)
<b>Net book value</b>							
<b>At 31 March 2003</b>	<b>95,420</b>	<b>5,427</b>	<b>9,995</b>	<b>566</b>	<b>5</b>	<b>6,997</b>	<b>118,410</b>
At 31 March 2002	93,015	4,186	10,645	704	21	7,569	116,140

<b>THE GROUP</b>	
<b>2003</b>	2002
<b>HK\$'000</b>	<i>HK\$'000</i>

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

Properties		
– freehold in Thailand	<b>17,998</b>	17,850
– held under medium-term land use rights in the PRC	<b>76,200</b>	75,135
	<b>94,198</b>	92,985

# Notes to the Financial Statements

For the year ended 31 March 2003

## 12. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for future acquisition. The related capital commitments are included in note 25.

## 13. INVESTMENTS IN SUBSIDIARIES

THE COMPANY  
2003 & 2002  
HK\$'000

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Unlisted shares (Note)	215,145
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*Note:* The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the group reorganisation in December 2001.

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

## 14. INVENTORIES

THE GROUP

	2003 HK\$'000	2002 HK\$'000
Raw materials	45,387	45,975
Work in progress	29,239	22,184
Finished goods	26,234	16,327
	<b>100,860</b>	<b>84,486</b>

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# Notes to the Financial Statements

For the year ended 31 March 2003

## 15. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of approximately HK\$94,947,000 (2002: HK\$63,628,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Less than 30 days	44,685	52,038
31 - 60 days	16,787	9,116
61 - 90 days	10,317	1,169
Over 90 days	23,158	1,305
	<b>94,947</b>	<b>63,628</b>

## 16. AMOUNT DUE FROM A RELATED COMPANY

The amount represents trading balance due from Lee And Man Manufacturing Company Limited (“Lee & Man Manufacturing”), which is beneficially owned by Mr. Lee Wan Keung, a director of certain subsidiaries of the Company. It is unsecured, interest free and repayable on demand.

## 17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$49,399,000 (2002: HK\$46,185,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Less than 30 days	37,791	37,009
31 - 60 days	11,083	8,615
61 - 90 days	14	501
Over 90 days	511	60
	<b>49,399</b>	<b>46,185</b>

# Notes to the Financial Statements

For the year ended 31 March 2003

## 18. AMOUNTS DUE TO RELATED COMPANIES

The amounts represent trading balances due to certain subsidiaries of Wisdom Venture Holdings Limited (formerly known as “SC Industrial Development Company Limited”) (“Wisdom Venture”) which are associates of Fortune Star. The amounts are unsecured, interest free and repayable on demand.

## 19. LAND AND BUILDINGS COSTS PAYABLE

The balance represents the amount payable for the acquisition of land and buildings and is payable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	2,932	–
More than one year	6,916	–
	9,848	–
Less: Amount due within one year shown under current liabilities	(2,932)	–
Amount due after one year	6,916	–

## 20. SHORT-TERM BANK BORROWINGS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Bank loan	–	2,496
Trust receipt and import loans	–	2,440
Bank overdrafts	228	2,619
	228	7,555



# Notes to the Financial Statements

For the year ended 31 March 2003

## 21. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each:		
Authorised:		
On incorporation	1,000,000	100
Increase in authorised share capital	4,999,000,000	499,900
At 31 March 2002 and 31 March 2003	5,000,000,000	500,000
Issued and fully paid:		
Issue of share to subscriber	1	–
Issue of new shares on acquisition of subsidiaries	704,999,999	70,500
Issue of new shares on settlement of debt	120,000,000	12,000
At 31 March 2002 and 31 March 2003	825,000,000	82,500

There was no movement in the Company's share capital during the year.

## 22. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 14 December 2001 for the purpose of providing incentives to directors and eligible persons. The Scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 13 December 2010.

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

# Notes to the Financial Statements

For the year ended 31 March 2003

## 22. SHARE OPTION SCHEME (CONTINUED)

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

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

No option was granted by the Company under the Scheme since its adoption.

## 23. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
Issue of shares	20,307	–	–	20,307
Reserve arising on acquisition of subsidiaries	–	112,338	–	112,338
Loss attributable to shareholders	–	–	(5,467)	(5,467)
At 31 March 2002	20,307	112,338	(5,467)	127,178
Profit attributable to shareholders	–	–	71,695	71,695
Dividends ( <i>note 9</i> )	–	–	(24,750)	(24,750)
At 31 March 2003	20,307	112,338	41,478	174,123

The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company pursuant to the group reorganisation in December 2001 and the nominal value of the Company's shares issued for the acquisition.

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 23. RESERVES (CONTINUED)

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\$174,100,000 million as at 31 March 2003 (2002: HK\$127.2 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 distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

## 24. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Minimum lease payments paid under operating leases in respect of		
– land and buildings	4,261	4,035
– equipment	293	282
	4,554	4,317

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	3,610	3,164	239	214
In the second to fifth year inclusive	6,232	7,638	222	177
Over five years	638	–	–	–
	10,480	10,802	461	391

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

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

# Notes to the Financial Statements

For the year ended 31 March 2003

## 25. 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	794	–

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

## 26. FORWARD CONTRACT COMMITMENTS

At the balance sheet date, the Group had forward contract commitments, expressed in Euro, as follows:

	2003	2002
Principal amount of a forward contract held for hedging purposes against trade and other receivables		
– sale of Euro	Euro 550,000	–
– purchase of USD	USD 586,355	–

The Company had no forward contract 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	22,778	3,584	–	–
Guarantees given to banks in respect of credit facilities extended to subsidiaries	–	–	57,500	70,300

# Notes to the Financial Statements

For the year ended 31 March 2003

## 28. RETIREMENT BENEFIT SCHEMES

### Defined benefit scheme

The Group is a member of a defined benefit scheme 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 scheme were enrolled into a MPF Scheme and their accrued benefits for the past services under the defined benefit scheme were frozen as at 30 November 2000. The defined benefit scheme was closed to new employees from December 2000 onwards.

Under the defined benefit scheme, employees are entitled to retirement benefits varying between 0 and 100% of their salary as at 30 November 2000 multiplied by the pensionable service up to 30 November 2000 on attainment of a retirement age of 55. No other post-retirement benefits are provided.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation was carried out as at 31 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.

	2003	2002
The main actuarial assumptions used were as follows:		
Discount rate	5.0%	5.0%
Expected return on plan assets	5.0%	5.0%
Expected rate of salary increase	0%	0%

The actuarial valuation shows that the market value of plan assets at 31 March 2003 was HK\$10,322,000 (2002: HK\$10,221,000) and that the actuarial value of these assets represented 173% (2002: 171%) of the benefits that were accrued to members.

# Notes to the Financial Statements

For the year ended 31 March 2003

## 28. RETIREMENT BENEFIT SCHEMES (CONTINUED)

### Defined benefit scheme (continued)

The charge (credit) recognised in the consolidated income statement in respect of the defined benefit scheme is as follows:

	2003 HK\$'000	2002 HK\$'000
Current service cost	–	–
Interest cost	289	265
Expected return on plan assets	(500)	(468)
Net actuarial gains	–	(9)
	<b>(211)</b>	<b>(212)</b>

The net credit for the year has been included in other operating income.

The actual return on plan assets for the year was HK\$507,000 (2002: HK\$479,000).

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

	2003 HK\$'000	2002 HK\$'000
Fair value of plan assets	10,322	10,221
Unrecognised actuarial losses	85	–
Present value of funded obligations	(5,955)	(5,980)
	<b>4,452</b>	<b>4,241</b>

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

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

	2003 HK\$'000	2002 HK\$'000
At beginning of the year	4,241	4,029
Amounts credited to income	211	212
At end of the year	<b>4,452</b>	<b>4,241</b>

# Notes to the Financial Statements

For the year ended 31 March 2003

## 28. RETIREMENT BENEFIT SCHEMES (CONTINUED)

### Defined contribution scheme

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 the lower of HK\$1,000 or 5% of the relevant monthly payroll costs to the MPF Scheme, which contribution is matched by employees.

## 29. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

### (I) Connected parties

The Group had significant transactions and balances with Wisdom Venture and its subsidiaries (hereinafter collectively referred to as the “Wisdom Venture Group”), subsidiaries of Fortune Star and Lee & Man Manufacturing during the year and at the balance sheet date as follows:

Name of party	Nature of transactions/balance	THE GROUP	
		2003 HK\$'000	2002 HK\$'000
Wisdom Venture Group	Corrugated cardboard and carton boxes purchased (note a)	7,445	1,292
	Management fee income received (note b)	871	360
	Licence fee paid (note c)	314	470
	Balance due to the Wisdom Venture Group	1,127	812
Subsidiaries of Fortune Star	Management fee income received (note b)	360	–
	Licence fee paid (note c)	1,411	–
Lee & Man Manufacturing	Management fee income received (note b)	77	–
	Balance due from Lee & Man Manufacturing	77	–
Lee & Man Realty Investment Limited (“Lee & Man Realty”)	Licence fee paid (note c)	157	–

Notes:

- The Group has agreed to purchase corrugated cardboard and carton boxes from time to time from the Wisdom Venture Group. The purchase prices are negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions.

# Notes to the Financial Statements

For the year ended 31 March 2003

## 29. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

### (I) Connected parties (continued)

Notes: (continued)

- b. The Group 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 Lee & Man Paper Products Company Limited, a subsidiary of Wisdom Venture, and Lee & Man Manufacturing, a former subsidiary of Wisdom Venture, for a monthly management fee on a cost basis.

Lee & Man Manufacturing was disposed of to a subsidiary of Fortune Star in June 2002 and it was subsequently disposed of to Mr. Lee Wan Keung in early March 2003.

- c. Pursuant to two licence agreements entered into between Lee & Man Management Company Limited (“Lee & Man Management”), a wholly-owned subsidiary of the Company, and Lee & Man Realty, a former subsidiary of Wisdom Venture, on 14 December 2001, Lee & Man Realty has agreed to grant licences to Lee & Man Management and subsidiaries of the Company to enter into possession of and occupy certain office space of the Wisdom Venture Group for a term of three years commencing 1 January 2002 for a total monthly licence fee of HK\$156,750.

Lee & Man Realty was disposal of to a subsidiary of Fortune Star in June 2002 and it was subsequently disposed of to Mr. Lee Wan Keung in early March 2003.

### (II) Related parties, other than connected parties

Prior to the group reorganisation in December 2001, the Group had the following transactions with the Wisdom Venture Group as follows:

Name of party	Nature of transactions	Notes	THE GROUP	
			2003 HK\$'000	2002 HK\$'000
Wisdom Venture	Sales of goods	(a)	–	482
Group	Management fee income received	(b)	–	976
	Transportation charges paid	(a)	–	134
	Packing materials purchased	(a)	–	5,215
	Rental paid	(a)	–	1,538

Notes:

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



## Notes to the Financial Statements

*For the year ended 31 March 2003*

### 30. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which were wholly-owned by the Company at 31 March 2003, are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Principal activities #
Cititower Pacific Limited *	British Virgin Islands	Shares – US\$4,000,000	Investment holding
Lee & Man Development	British Virgin Islands	Shares – US\$90	Investment holding
Lee & Man Company Limited	Hong Kong	Ordinary shares – HK\$1,000,000 Non-voting deferred shares – HK\$1,000,000	Manufacture and sales of handbags and luggage
Lee & Man Handbag Manufacturing Company Limited	Hong Kong	Ordinary shares – HK\$10,000 Non-voting deferred shares – HK\$500,000	Manufacture and sales of handbags and luggage
Lee & Man Management	Hong Kong	Ordinary shares – HK\$2	Provision of management and administration services
Lee & Man Handbag (Thailand) Co., Ltd.	Thailand	Shares – 30,000,000 Baht	Manufacture of handbags and luggage in Thailand

\* A put option has been granted to two employees of the company to acquire up to 49% of the company.

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

# Notes to the Financial Statements

*For the year ended 31 March 2003*

## 30. PRINCIPAL SUBSIDIARIES (CONTINUED)

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

The deferred shares practically carry no rights to participate in profits or surplus assets or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

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

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