Notes to the Financial Statements

For the year ended 31st March, 2004

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 28.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD/CHANGE IN ACCOUNTING POLICY

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and accordingly, no prior period adjustment is required.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange 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 the 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.

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

Investments in subsidiaries

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

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 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%
Plant and machinery	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised 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 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 is calculated using the weighted average method.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

For management purposes, the Group's operations are organised into two operating divisions namely trading of petroleum products and manufacture and sales of paper packaging 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.

Segment information about these businesses is presented below:

2004

	Continuing operations		
	Trading of petroleum products HK$'000	Manufacture and sales of paper packaging products HK$'000	Consolidated HK$'000
TURNOVER			
External sales	246,204	222,511	468,715
RESULTS			
Segment results	1,349	14,861	16,210
Interest income			118
Unallocated corporate expenses			(5,809)
Profit from operations			10,519
Interest on bank borrowings wholly repayable within five years			(5)
Profit before taxation			10,514
Taxation			(36)
Profit before minority interests			10,478
Minority interests			(7,121)
Profit attributable to shareholders			3,357

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business Segments *(continued)*

2004 *(continued)*

	Continuing operations: Trading of petroleum products HK$'000	Continuing operations: Manufacture and sales of paper packaging products HK$'000	Consolidated HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	7,129	241,936	249,065
Unallocated corporate assets			59,406
Total assets			308,471
LIABILITIES			
Segment liabilities	7,084	8,891	15,975
Unallocated corporate liabilities			698
Total liabilities			16,673

	Continuing operations: Manufacture and sales of paper packaging products HK$'000	Others HK$'000	Consolidated HK$'000
OTHER INFORMATION			
Capital additions	1,433	12	1,445
Depreciation and amortisation	14,212	57	14,269
Loss on disposal of property, plant and equipment	2,188	—	2,188

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business Segments *(continued)*

2003

	Continuing operations		Discontinued operations	
	Trading of petroleum products HK$'000	Manufacture and sales of paper packaging products HK$'000	Manufacture and sales of audio cassette products HK$'000	Consolidated HK$'000
TURNOVER				
External sales	62,381	239,531	12,096	314,008
RESULTS				
Segment results	(2,676)	17,890	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 partial disposal of interests in subsidiaries	—	(22,388)	—	(22,388)
Profit on disposal of discontinued operations	—	—	3,998	3,998
Loss before taxation				(1,849)
Taxation				(169)
Loss before minority interests				(2,018)
Minority interests				(2,362)
Loss attributable to shareholders				(4,380)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business Segments *(continued)*

2003 *(continued)*

	Continuing operations		
	Trading of petroleum products HK$'000	Manufacture and sales of paper packaging products HK$'000	Consolidated HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	591	247,028	247,619
Unallocated corporate assets			37,115
Total assets			284,734
LIABILITIES			
Segment liabilities	13	8,552	8,565
Unallocated corporate liabilities			463
Total liabilities			9,028

	Continuing operations		Discontinued operations	
	Trading of petroleum products HK$'000	Manufacture and sales of paper packaging products HK$'000	Manufacture and sales of audio cassette products HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital additions	273	6,403	—	6,676
Depreciation and amortisation	34	15,395	363	15,792
Bad debts written off	—	8,559	—	8,559
Loss (gain) on disposal of property, plant and equipment	—	395	(4)	391

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical Segments

The Group was engaged in the trading of petroleum products and manufacture and sales of paper packaging products. More than 90% of the Group's turnover are located in the People's Republic of China other than Hong Kong (the "PRC").

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**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC	**243,858**	248,254	**1,433**	6,400
Hong Kong	**64,613**	36,480	**12**	276
	308,471	284,734	**1,445**	6,676

5. PROFIT FROM OPERATIONS

	2004	2003
	HK$'000	HK$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments *(note 6)*	**1,972**	1,805
Other staff costs	**14,597**	15,233
Other retirement benefits scheme contributions	**135**	136
Total staff costs	**16,704**	17,174
Auditors' remuneration	**512**	521
Bad debts written off	**—**	8,559
Depreciation and amortisation	**14,269**	15,792
Loss on disposal of property, plant and equipment	**2,188**	391
and after crediting:		
Interest income	**118**	218
Rental income from properties, net of negligible outgoings	**1,990**	1,708

6. DIRECTORS' EMOLUMENTS

	2004	2003
	HK$'000	HK$'000
Directors' fees:		
Executive	—	—
Independent non-executive	40	280
Other emoluments of executive directors:		
Salaries and other benefits	1,908	1,510
Retirement benefits scheme contributions	24	15
Total directors' emoluments	1,972	1,805

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, three (2003: two) were directors of the Company whose emoluments are included in the disclosure in note 6 above. The emoluments of the remaining two (2003: three) individuals are as follows:

	2004	2003
	HK$'000	HK$'000
Salaries and other benefits	1,281	1,434
Retirement benefits scheme contributions	42	24
	1,323	1,458

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

8. DISCONTINUED OPERATIONS

In June 2002, the Group disposed of certain subsidiaries which were principally engaged in the manufacture and sales of audio cassette products. Net assets disposed of are set out in note 22(a).

The results of those disposed subsidiaries for the period from 1st April, 2002 to the date of discontinuance, which were included in the consolidated financial statements for the year ended 31st March, 2003, were as follows:

	HK$'000
Turnover	12,096
Segment results	2,877
Interest income	3
Profit from operations	2,880

9. TAXATION

The charge represents Hong Kong Profits Tax calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment.

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.

The tax charge for the year can be reconciled to the profit (loss) per the income statement as follows:

	2004		2003	
	HK$'000	%	HK$'000	%
Profit (loss) before taxation	**10,514**		(1,849)	
Tax at Hong Kong Profits Tax rate of 17.5% (2003: 16%)	**1,840**	**17.5**	(296)	16.0
Tax effect of expenses that are not deductible in determining taxable profit	**6,044**	**57.5**	15,860	(857.8)
Tax effect of income that is not taxable in determining taxable profit	**(8,390)**	**(79.8)**	(15,862)	857.9
Tax effect of tax losses not recognised	**778**	**7.4**	467	(25.2)
Utilisation of tax losses previously not recognised	**(236)**	**(2.3)**	—	—
Tax expense and effective tax rate for the year	**36**	**0.3**	169	(9.1)

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 31st March, 2004

10. DISTRIBUTIONS

	2004	2003
	HK$'000	HK$'000
Special interim dividend of Nil Hong Kong cents (2003: 23.5 Hong Kong cents) per share	—	193,875

11. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit attributable to shareholders of HK$3,357,000 (2003: loss of HK$4,380,000) and on the 990,000,000 (2003: weighted average number of 919,932,000) shares in issue during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Furniture, fixtures and equipment**	**Leasehold improvements**	**Motor vehicles**	**Plant and machinery**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
VALUATION						
At 1st April, 2003	87,560	1,655	3,140	386	64,671	157,412
Additions	—	229	—	385	831	1,445
Disposals	—	(11)	—	(3)	(2,177)	(2,191)
Adjustment arising on revaluation	(3,140)	(362)	(140)	(140)	(4,873)	(8,655)
At 31st March, 2004	84,420	1,511	3,000	628	58,452	148,011
DEPRECIATION AND AMORTISATION						
At 1st April, 2003	—	—	—	—	—	—
Provided for the year	4,512	357	210	176	9,014	14,269
Eliminated on revaluation	(4,512)	(357)	(210)	(176)	(9,014)	(14,269)
At 31st March, 2004	—	—	—	—	—	—
NET BOOK VALUE						
At 31st March, 2004	84,420	1,511	3,000	628	58,452	148,011
At 31st March, 2003	87,560	1,655	3,140	386	64,671	157,412

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

The Group's property, plant and equipment were revalued at 31st March, 2004 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 surplus arising on revaluation amounted to HK$5,614,000 (2003: HK$1,795,000) of which HK$2,890,000 (2003: HK$932,000), net of minority interests' share of HK$2,724,000 (2003: HK$863,000), has been credited to the asset revaluation reserve.

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	Plant and machinery	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
Cost	107,610	5,245	3,041	2,324	86,682	204,902
Accumulated depreciation and amortisation	(27,030)	(4,414)	(963)	(2,000)	(39,068)	(73,475)
Net book value						
At 31st March, 2004	80,580	831	2,078	324	47,614	131,427
At 31st March, 2003	84,958	1,297	2,230	83	55,005	143,573

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
The net book value of the Group's property interests comprises:		
Properties		
— held under medium-term land use rights in the PRC	**66,450**	68,900
— held under long-term land use rights in the PRC	**17,970**	18,660
	84,420	87,560

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK$'000	HK$'000
Unlisted shares	158,706	158,706
Amounts due from subsidiaries	34,503	12,065
	193,209	170,771

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, 2004 are set out in note 28.

14. INVENTORIES

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Raw materials	40,405	38,371
Finished goods	1,238	1,065
	41,643	39,436

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$49,571,000 (2003: HK$46,714,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Less than 30 days	18,843	18,259
31 – 60 days	15,590	12,069
61 – 90 days	8,996	9,720
Over 90 days	6,142	6,666
	49,571	46,714

16. AMOUNTS DUE FROM RELATED COMPANIES

The amounts represent trading balances due from certain subsidiaries of Lee & Man Holding Limited (formerly known as Lee & Man Handbag International Limited) ("L & M Holding", L & M Holding and its subsidiaries are collectively referred to as the "L & M Holding Group") and Lee And Man Manufacturing Company Limited ("L & M Manufacturing"). L & M Holding is beneficially owned by Fortune Star Tradings Ltd. ("Fortune Star") which is an associate (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) of Mr. Lee Wan Keung ("Mr. Lee") who is a director of a subsidiary of the Company. L & M Manufacturing was beneficially owned by Mr. Lee until 16th February, 2004. The amounts for both years are aged less than 60 days.

17. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$10,724,000 (2003: HK$3,940,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Less than 30 days	**8,660**	2,313
31 – 60 days	**2,061**	1,596
61 – 90 days	**3**	31
	10,724	3,940

18. AMOUNT DUE TO A RELATED COMPANY

The amount represents trading balance due to Lee & Man Industries Company Limited ("L & M Industries"), a subsidiary of Lee & Man Paper Manufacturing Limited ("L & M Paper"). L & M Paper is beneficially owned by Gold Best Holdings Ltd. ("Gold Best") which is an associate (as defined in the Listing Rules) of Mr. Lee. The amount for both years is aged less than 30 days.

19. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares of HK$0.10 each:		
Authorised:		
At 1st April, 2002, 31st March, 2003 and 31st March, 2004	5,000,000,000	500,000
Issued and fully paid:		
At 1st April, 2002	825,000,000	82,500
Issue of shares	165,000,000	16,500
At 31st March, 2003 and 31st March, 2004	990,000,000	99,000

20. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 16th December, 2002, the Company adopted a share option scheme (the "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 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 Scheme, the Board of Directors of the Company (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").

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 Scheme shall not exceed 10% of the issued share capital of the Company on the date of adopting the 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 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 Listing Rules. 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 in advance by the shareholders of the Company.

20. SHARE OPTION SCHEME *(continued)*

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 Scheme since its date of adoption.

21. RESERVES

	Share premium	Accumulated profits (losses)	Total
	HK$'000	HK$'000	HK$'000
THE COMPANY			
At 1st April, 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 interim dividend *(note 10)*	(60,502)	(133,373)	(193,875)
At 31st March, 2003	96,986	(1,124)	95,862
Loss attributable to shareholders	—	(961)	(961)
At 31st March, 2004	96,986	(2,085)	94,901

The Company's reserves available for distribution to its shareholders comprise share premium and accumulated losses which in aggregate amounted to approximately HK$94.9 million as at 31st March, 2004 (2003: HK$95.9 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.

22. DISPOSAL AND PARTIAL DISPOSAL OF INTERESTS IN SUBSIDIARIES

a. As referred to in note 8, the Group disposed of certain subsidiaries in June 2002 which were principally engaged in the manufacture and sales of audio cassette products.

The net assets disposed of are as follows:

	2004	2003
	HK$'000	HK$'000
Net assets disposed of:		
Property, plant and equipment	—	29,844
Inventories	—	23,702
Trade and other receivables	—	14,691
Taxation recoverable	—	380
Bank balances and cash	—	13,030
Trade and other payables	—	(24,896)
Amounts due to related companies	—	(56,586)
Net assets	—	165
Translation reserve realised	—	88
Gain on disposal of interests in subsidiaries	—	3,998
	—	4,251
Satisfied by:		
Cash consideration	—	50,000
Settlement of current account due to a purchaser	—	(45,749)
Net cash consideration	—	4,251
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)
Net cash consideration	—	4,251
	—	(8,779)

22. DISPOSAL AND PARTIAL DISPOSAL OF INTERESTS IN SUBSIDIARIES *(continued)*

b. In addition, the Group also disposed of 49% interest in Capital Nation Investments Limited ("Capital Nation") which was principally engaged in the manufacture and sales of paper packaging products for a cash consideration of HK$93,100,000 in June 2002. The disposal resulted in a loss of HK$22,388,000 to the Group for the year ended 31st March, 2003.

23. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2004	2003
	HK$'000	HK$'000
Minimum lease payments paid under operating leases in respect of land and buildings	**1,054**	1,156

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	
	2004	2003
	HK$'000	HK$'000
Within one year	**291**	981
In the second to fifth year inclusive	**—**	291
	291	1,272

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

24. PLEDGE OF ASSETS

At 31st March, 2004, a bank deposit of HK$7,870,000 (2003: HK$7,819,000) was pledged to a bank to secure credit facilities granted to the Group.

25. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to a supplier in respect of credit facilities extended to a subsidiary	**7,800**	7,800	**7,800**	7,800

26. 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 as at 30th November, 2000 multiplied by the pensionable service up to 30th 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 31st March, 2004 by Mr. Wilson Tang of HSBC Life (International) Limited, Associate 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:

	2004	2003
Discount rate	**5%**	5%
Expected return on plan assets	**5%**	5%
Expected rate of salary increases	**0%**	0%

26. RETIREMENT BENEFITS PLANS *(continued)*

Defined benefit plan *(continued)*

The actuarial valuation showed that the market value of plan assets at 31st March, 2004 was HK$1,424,000 (2003: HK$1,283,000) and that the actuarial value of these assets represented 82% (2003: 89%) 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:

	2004	2003
	HK$'000	HK$'000
Interest cost	**74**	85
Expected return on plan assets	**(66)**	(80)
Past service cost	**275**	—
Net actuarial losses	**—**	105
Total, included in administrative expenses	**283**	110

The actual return on plan assets for the year was HK$67,000 (2003: HK$79,000).

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

	2004	2003
	HK$'000	HK$'000
Fair value of plan assets	**1,424**	1,283
Unrecognised actuarial (gains) losses	**(73)**	43
Present value of funded obligations	**(1,744)**	(1,436)
	(393)	(110)

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

26. RETIREMENT BENEFITS PLANS *(continued)*

Defined benefit plan *(continued)*

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

	2004 HK$'000	2003 HK$'000
At beginning of the year	**(110)**	—
Amounts charged to income	**(283)**	(110)
At end of the year	**(393)**	(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 the relevant monthly payroll costs to the MPF Scheme.

27. 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, 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 a 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 also entered into certain transactions, as detailed in notes (e) to (g) below, with the L & M Holding Group in respect of (i) sales of corrugated cardboard and carton boxes; (ii) use of certain facilities of the L & M Holding Group and (iii) granting of licence for the use of certain premises of the Group. Such transactions (the "Second Connected Transactions") were detailed in a circular of the Company dated 21st December, 2001.

27. 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:

			THE GROUP	
Name of party	**Nature of transactions/balances**		**2004**	**2003**
		Notes	**HK$'000**	HK$'000
L & M Industries and its subsidiary	Raw materials purchased	*a*	**79,767**	90,943
	Waste paper by-products sold	*b*	**6,275**	5,349
	Steam purchased	*c*	**1,560**	1,560
	Licence fee received	*d*	**783**	674
	Balance due to L & M Industries		**1,444**	684
L & M Holding Group	Corrugated cardboard and carton boxes sold	*e*	**7,309**	7,445
	Management fee paid	*f*	**737**	871
	Licence fee received	*g*	**—**	314
	Balance due from L & M Holding Group		**1,545**	1,127
Fortune Star	Disposal and partial disposal of interests in subsidiaries	*h*	**—**	143,100
L & M Manufacturing	Corrugated cardboard and carton boxes sold	*e*	**—**	396
	Balance due from L & M Manufacturing		**—**	116
Mr. Lee	Management fee paid	*i*	**5,000**	3,983
	Guarantee given to banks in respect of credit facilities extended to the Group	*j*	**33,000**	53,000
Guangdong Petro-chemicals Company Limited ("GDPC")	Licence fee received	*k*	**374**	—

27. 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, 2003 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 Licence Agreement was expired on 9th July, 2003.

   Other licence fees were charged in accordance with the relevant licence agreements.

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

Notes: (continued)

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

f. Pursuant to a management agreement entered into between the Company and L & M Holding on 14th December, 2001, L & M Holding 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 on a cost basis.

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 former subsidiary of L & M Holding, L & M Realty has agreed to grant licences to L & M Management and subsidiaries of L & M Holding 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. L & M Realty ceased to be a subsidiary of the Company in June 2002.

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, 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. 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 instalments in advance. The agreement was approved in an extraordinary general meeting of the Company held on 14th June, 2002.

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

k. GDPC is beneficially owned by Mr. David An, a director of the Company. The licence fee was charged in accordance with the relevant licence agreement.

28. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2004 are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid share capital	Attributable equity interest		Principal activities#
			Direct	Indirect	
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$1,000,000	—	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.