

# Notes to the Financial Statements

For the year ended 31 March 2004

## 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 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 33.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

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
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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. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

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.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 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.

### **Foreign currencies**

Transactions in foreign currencies 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 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment

Property, plant and equipment, other than buildings under construction, are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Buildings under construction are stated at cost which includes all construction costs and other direct costs, attributable to the buildings under construction. They are not depreciated or amortised until completion of construction. Costs of completed buildings under construction are transferred to the appropriate categories of property, plant and equipment.

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 sale 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 2004

## 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 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. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

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 2004

## 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 amount 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 goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax 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 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 respective leases.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

No business segment analysis is provided as all of the Group'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 from operations	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
United States of America ("USA")	<b>746,534</b>	690,788	<b>84,868</b>	93,548
Europe	<b>172,970</b>	176,588	<b>22,582</b>	29,726
Hong Kong	<b>16,112</b>	23,311	<b>994</b>	3,033
South America	<b>8,321</b>	11,324	<b>1,400</b>	2,050
Others	<b>11,813</b>	17,250	<b>406</b>	1,764
	<b>955,750</b>	919,261	<b>110,250</b>	130,121
Surplus (deficit) arising on revaluation of property, plant and equipment			<b>2,648</b>	(1,962)
Interest income			<b>799</b>	536
Finance costs			<b>(777)</b>	(396)
Profit before taxation			<b>112,920</b>	128,299
Income tax expenses			<b>(9,876)</b>	(12,616)
Profit before minority interests			<b>103,044</b>	115,683
Minority interests			<b>(883)</b>	–
Profit attributable to shareholders			<b>102,161</b>	115,683

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 2004

## 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	219,031	175,705	155	864
People's Republic of China (the "PRC")	197,965	188,560	8,137	13,729
USA	76,412	52,540	2,908	941
Thailand	21,228	20,109	–	–
	<b>514,636</b>	436,914	<b>11,200</b>	15,534

## 5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' emoluments ( <i>note 7</i> )	2,998	4,434
Other staff costs	142,826	132,504
Other retirement benefits scheme contributions	1,005	923
Total staff costs	146,829	137,861
Auditors' remuneration	612	558
Bad debts written off	494	925
Deficit arising on revaluation of property, plant and equipment	–	1,962
Depreciation and amortisation	11,349	10,786
Loss on disposal of property, plant and equipment	143	3,181
and after crediting:		
Interest income	799	536
Surplus arising on revaluation of property, plant and equipment	2,648	–

# Notes to the Financial Statements

For the year ended 31 March 2004

## 6. FINANCE COSTS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	<b>117</b>	396
– other borrowings wholly repayable within five years	<b>660</b>	–
	<b>777</b>	396

## 7. DIRECTORS' EMOLUMENTS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	<b>173</b>	340
Other emoluments of executive directors:		
Salaries and other benefits	<b>2,739</b>	3,990
Bonuses	<b>38</b>	46
Retirement benefits scheme contributions	<b>48</b>	58
	<b>2,998</b>	4,434

The emoluments of the directors were within the following bands:

	<b>2004</b> <b>Number of</b> <b>directors</b>	2003 Number of directors
Up to HK\$1,000,000	<b>7</b>	8
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	2

During the year ended 31 March 2003 and 31 March 2004, 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.



# Notes to the Financial Statements

For the year ended 31 March 2004

## 8. EMPLOYEES' EMOLUMENTS

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

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Salaries and other benefits	<b>10,546</b>	9,642
Bonuses	<b>7,187</b>	17,735
	<b>17,733</b>	27,377

The emoluments were within the following bands:

	<b>2004</b> <b>Number of</b> <b>employees</b>	2003 Number of employees
HK\$1,500,001 to HK\$2,000,000	<b>3</b>	3
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	–
HK\$7,000,001 to HK\$7,500,000	<b>–</b>	1
HK\$8,000,001 to HK\$8,500,000	<b>1</b>	–
HK\$15,000,001 to HK\$15,500,000	<b>–</b>	1

## 9. INCOME TAX EXPENSES

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	<b>9,811</b>	12,586
Overseas taxation	<b>65</b>	30
	<b>9,876</b>	12,616

# Notes to the Financial Statements

For the year ended 31 March 2004

## 9. INCOME TAX EXPENSES (CONTINUED)

A substantial portion of the Group's profits neither arises in, nor is derived from, Hong Kong and therefore is not subject to Hong Kong Profits Tax.

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. The Profits Tax rate has been increased with effect from the 2003/2004 year of assessment.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

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

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<b>112,920</b>		128,299	
Tax at the domestic income tax rate of 17.5% (2003: 16%)	<b>19,761</b>	<b>17.5</b>	20,527	16.0
Tax effect of expenses that are not deductible in determining taxable profit	<b>490</b>	<b>0.4</b>	4,069	3.1
Tax effect of income that is not taxable in determining taxable profit	<b>(1,963)</b>	<b>(1.7)</b>	(2,831)	(2.2)
Tax effect of deferred taxation asset not recognised	<b>204</b>	<b>0.2</b>	347	0.3
Tax effect of tax losses not recognised	<b>1,146</b>	<b>1.0</b>	284	0.2
Tax effect of offshore income not subject to tax	<b>(9,280)</b>	<b>(8.3)</b>	(9,762)	(7.6)
Utilisation of tax loss not previously recognised	<b>(701)</b>	<b>(0.6)</b>	(108)	(0.1)
Effect of different tax rates of operation in other jurisdictions	<b>219</b>	<b>0.2</b>	90	0.1
Tax expense and effective tax rate for the year	<b>9,876</b>	<b>8.7</b>	12,616	9.8

At the balance sheet date, the Group had unutilised tax losses of HK\$34,106,000 (2003: HK\$31,559,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unutilised tax losses of HK\$21,824,000 (2003: HK\$25,639,000) that will expire before 2023. Other losses may be carried forward indefinitely.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 10. DIVIDENDS

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interim dividend paid of HK\$0.03 (2003: HK\$0.03) per share	<b>24,750</b>	24,750
Final dividend proposed of HK\$0.05 (2003: HK\$0.05) per share	<b>41,250</b>	41,250
	<b>66,000</b>	66,000

The final dividend of HK\$0.05 (2003: HK\$0.05) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

## 11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$102,161,000 (2003: HK\$115,683,000) and 825,000,000 (2003: 825,000,000) shares in issue during the year.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Buildings under construction	Furniture, fixtures and equipment	Leasehold improve- ments	Motor vehicles	Moulds	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>								
COST OR VALUATION								
At 1 April 2003	94,198	-	8,818	10,767	1,822	179	13,148	128,932
Currency realignment	1,328	-	1	-	1	-	122	1,452
Additions	-	4,261	1,429	2,112	725	-	2,673	11,200
Disposals	-	-	(36)	-	(279)	-	(83)	(398)
Adjustment arising on revaluation	(1,480)	-	(1,767)	(1,499)	(508)	(39)	(2,033)	(7,326)
At 31 March 2004	94,046	4,261	8,445	11,380	1,761	140	13,827	133,860
Comprising:								
At cost	-	4,261	-	-	-	-	-	4,261
At valuation	94,046	-	8,445	11,380	1,761	140	13,827	129,599
	94,046	4,261	8,445	11,380	1,761	140	13,827	133,860
DEPRECIATION AND AMORTISATION								
At 1 April 2003	-	-	-	-	-	-	-	-
Provided for the year	5,041	-	2,002	1,119	520	60	2,607	11,349
Eliminated on revaluation	(5,041)	-	(2,002)	(1,119)	(520)	(60)	(2,607)	(11,349)
At 31 March 2004	-	-	-	-	-	-	-	-
NET BOOK VALUES								
At 31 March 2004	94,046	4,261	8,445	11,379	1,762	140	13,827	133,860
At 31 March 2003	94,198	-	8,818	10,767	1,822	179	13,148	128,932

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

# Notes to the Financial Statements

For the year ended 31 March 2004

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

The Group's property interests situated in Thailand were revalued at 31 March 2004 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.

The net surplus of HK\$4,023,000 (2003: deficit of HK\$362,000) arising on the above revaluation has been dealt with as follows:

- (i) a surplus of HK\$1,375,000 (2003: HK\$1,600,000) of which HK\$1,304,000 (2003: HK\$1,600,000), net of minority interests' share of HK\$71,000 (2003: nil) has been credited to the asset revaluation reserve; and
- (ii) a surplus of HK\$2,648,000 (2003: deficit of HK\$1,962,000) has been credited to the consolidated income statement.

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

	<b>Land and buildings</b>	<b>Furniture, fixtures and equipment</b>	<b>Leasehold improve- ments</b>	<b>Motor vehicles</b>	<b>Moulds</b>	<b>Plant and machinery</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
Cost	124,650	17,905	20,075	7,758	887	38,892	210,167
Accumulated depreciation and amortisation	(33,151)	(12,900)	(9,080)	(6,897)	(887)	(31,243)	(94,158)
Net book values							
At 31 March 2004	91,499	5,005	10,995	861	–	7,649	116,009
At 31 March 2003	95,420	5,427	9,995	566	5	6,997	118,410

# Notes to the Financial Statements

For the year ended 31 March 2004

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

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The net book value of the Group's property interests comprises:		
Properties		
– freehold in Thailand	<b>19,246</b>	17,998
– held under medium-term land use rights in the PRC	<b>74,800</b>	76,200
	<b>94,046</b>	94,198

## 13. 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 expansion. The related capital commitments are included in note 28.

## 14. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b>
	<b>2004 &amp; 2003</b>
	HK\$'000
Unlisted shares ( <i>Note</i> )	215,145

*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 2004 are set out in note 33.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 15. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	46,658	45,387
Work in progress	27,221	29,239
Finished goods	31,805	26,234
	<b>105,684</b>	100,860

## 16. 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 HK\$103,698,000 (2003: HK\$94,947,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Less than 30 days	62,933	44,685
31 – 60 days	18,588	16,787
61 – 90 days	5,543	10,317
Over 90 days	16,634	23,158
	<b>103,698</b>	94,947

## 17. 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 Ms. Lee Marina Man Wai, a director of the Company. The amounts for both years are aged less than 30 days.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 18. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$71,093,000 (2003: HK\$49,399,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Less than 30 days	52,580	37,791
31 – 60 days	17,820	11,083
61 – 90 days	533	14
Over 90 days	160	511
	<b>71,093</b>	49,399

## 19. AMOUNTS DUE TO RELATED COMPANIES

The amounts represent trading balances due to certain subsidiaries of Wisdom Venture Holdings Limited (“Wisdom Venture”), which is an associate (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”)) of Fortune Star. The amounts for both years are aged less than 60 days.

## 20. LAND AND BUILDINGS COSTS PAYABLE

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	6,916	2,932
More than one year but not exceeding two years	–	6,916
	<b>6,916</b>	9,848
Less: Amount due within one year shown under current liabilities	<b>(6,916)</b>	(2,932)
Amount due after one year	–	6,916



# Notes to the Financial Statements

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## 21. BANK AND OTHER BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Other loan	19,751	–
Bank overdrafts	153	228
	<b>19,904</b>	228

Other loan represents advances from a factoring company in the USA. The loan bears interest at United States Prime rate minus 2% per annum and is repayable on demand. The loan is secured by certain property, plant and equipment and inventories of a subsidiary of the Company amounting to HK\$3,955,000 and HK\$20,791,000 respectively.

## 22. SHARE CAPITAL

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

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

# Notes to the Financial Statements

For the year ended 31 March 2004

## 23. 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 of the Company (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").

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 Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment. The exercise price is equal to the 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.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

No options were granted by the Company under the Scheme since its adoption.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 24. RESERVES

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Accumulated (losses) profits</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE COMPANY</b>				
At 1 April 2002	20,307	112,338	(5,467)	127,178
Profit attributable to shareholders	–	–	71,695	71,695
Dividends ( <i>note 10</i> )	–	–	(24,750)	(24,750)
At 31 March 2003	20,307	112,338	41,478	174,123
Profit attributable to shareholders	–	–	65,984	65,984
Dividends ( <i>note 10</i> )	–	–	(66,000)	(66,000)
At 31 March 2004	20,307	112,338	41,462	174,107

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.

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\$174.1 million as at 31 March 2004 (2003: HK\$174.1 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of 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.

## 25. PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY

During the year, the Group disposed of 49% equity interest in Cititower Pacific Limited ("Cititower") for a consideration of HK\$17,141,000 to a director and an employee of a subsidiary of the Company (collectively the "Purchasers"). The disposal resulted in a gain of HK\$1,548,000 to the Group for the year ended 31 March 2004.

## 26. MAJOR NON CASH TRANSACTION

Among the total consideration of HK\$17,141,000 for the disposal of Cititower, HK\$11,291,000 was offset with the bonuses payable to the Purchasers during the year.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 27. OPERATING LEASES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid under operating leases in respect of		
– land and buildings	<b>5,801</b>	4,261
– equipment	<b>1,724</b>	293
	<b>7,525</b>	4,554

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	<b>3,708</b>	3,610	<b>418</b>	239
In the second to fifth year inclusive	<b>5,930</b>	6,232	<b>543</b>	222
Over five years	<b>191</b>	638	–	–
	<b>9,829</b>	10,480	<b>961</b>	461

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 2004

## 28. CAPITAL COMMITMENT

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<b>1,232</b>	794

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

## 29. FORWARD CONTRACT COMMITMENTS

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

	2004	2003
Principal amounts of a forward contract held for hedging purposes against trade and other receivables		
– sale of Euro	–	EUR550,000
– purchase of United States dollar	–	USD586,000

The Company had no forward contract commitments at the balance sheet date.

## 30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Export bills discounted with recourse	<b>2,225</b>	22,778	–	–
Guarantees given to banks in respect of credit facilities extended to subsidiaries	–	–	<b>93,300</b>	57,500

At 31 March 2004, the subsidiaries of the Company has not utilised any of the facilities granted by the bank which are guaranteed by the Company.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 31. 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 SSAP 34 actuarial valuation of the plan assets and the present value of the defined benefit obligation was carried out as at 31 March 2004 by HSBC Life (International) Limited. 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:

	<b>2004</b> per annum	2003 per annum
Discount rate	<b>5.0%</b>	5.0%
Expected return on plan assets	<b>5.0%</b>	5.0%
Expected rate of salary increases	<b>0%</b>	0%

The SSAP 34 actuarial valuation shows that the market value of plan assets at 31 March 2004 was HK\$10,700,000 (2003: HK\$10,322,000) and that the actuarial value of these assets represented 150% (2003: 173%) of the benefits that were accrued to members.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 31. RETIREMENT BENEFITS 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:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current service cost	–	–
Interest cost	<b>294</b>	289
Expected return on plan assets	<b>(513)</b>	(500)
Past service cost	<b>765</b>	–
Net actuarial gains	<b>(4)</b>	–
Total, included in administrative expenses (other operating income)	<b>542</b>	(211)

The actual return on plan assets for the year was HK\$510,000 (2003: HK\$507,000).

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fair value of plan assets	<b>10,700</b>	10,322
Unrecognised actuarial losses	<b>366</b>	85
Present value of funded obligations	<b>(7,156)</b>	(5,955)
	<b>3,910</b>	4,452

The fair value of the 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:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
At beginning of the year	<b>4,452</b>	4,241
Amounts (charged) credited to income	<b>(542)</b>	211
At end of the year	<b>3,910</b>	4,452

# Notes to the Financial Statements

For the year ended 31 March 2004

## 31. RETIREMENT BENEFITS 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.

## 32. CONNECTED TRANSACTIONS AND BALANCES

The Group had significant transactions and balances with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules, during the year and at the balance sheet date as follows:

Name of party	Nature of transactions/balance	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Wisdom Venture and its subsidiaries ("Wisdom Venture Group")	Corrugated cardboard and carton boxes purchased ( <i>note a</i> )	<b>7,309</b>	7,445
	Management fee income received ( <i>note b</i> )	<b>737</b>	871
	Licence fee paid ( <i>note c</i> )	<b>-</b>	314
	Balance due to the Wisdom Venture Group	<b>1,545</b>	1,127
Lee & Man Manufacturing	Management fee income received ( <i>note b</i> )	<b>269</b>	77
	Balance due from Lee & Man Manufacturing	<b>20</b>	77
Lee & Man Paper Manufacturing Limited ("Lee & Man Paper Manufacturing")	Management fee income received ( <i>note d</i> )	<b>505</b>	-
Lee & Man Realty Investment Limited ("Lee & Man Realty")	Licence fee paid ( <i>note c</i> )	<b>1,454</b>	157
Subsidiaries of Fortune Star	Management fee income received ( <i>note b</i> )	<b>-</b>	360
	Licence fee paid ( <i>note c</i> )	<b>-</b>	1,411



# Notes to the Financial Statements

For the year ended 31 March 2004

## 32. CONNECTED TRANSACTIONS AND BALANCES (CONTINUED)

*Notes:*

- a. 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.
- 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 for a monthly management fee on a cost basis.

Lee & Man Manufacturing was a former subsidiary of Wisdom Venture and was disposed of to a subsidiary of Fortune Star in June 2002 and then to Mr. Lee Wan Keung in early March 2003 and further to Ms. Lee Marina Man Wai, a director of the Company, in February 2004.

Mr. Lee Wan Keung is a director of certain subsidiaries of the Company.

- 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, which is beneficially owned by Mr. Lee Wan Keung, 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 Lee & Man Realty for a term of three years commencing 1 January 2002 for a total monthly licence fee of HK\$156,750. The total monthly licence fee has been decreased to HK\$114,000 effective from 1 June 2003 as mutually agreed.

Lee & Man Realty 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.

- d. Pursuant to the management services agreement entered into between Lee & Man Management and Lee & Man Paper Manufacturing, which is an associate (as defined in the Listing Rules) of Fortune Star, on 8 September 2003 for a term of one year from 1 September 2003, Lee & Man Management will provide administrative and secretarial services to Lee & Man Paper Manufacturing and the right to use Lee & Man Management's office as registered office at monthly services fee of HK\$72,077.

On 1 August 2003, the Group disposed of 32.67% equity interest in Cititower to Mr. Dan Sabbah, a director of Cititower, for a consideration of HK\$11,427,000. Cititower is formerly a wholly-owned subsidiary of the Company.

# Notes to the Financial Statements

For the year ended 31 March 2004

## 33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 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 #
Cititower	British Virgin Islands	Shares – US\$2,000,000	51%	Investment holding
Lee & Man Development	British Virgin Islands	Shares – US\$90	100%	Investment holding
Lee & Man Company Limited	Hong Kong	Ordinary shares – HK\$1,000,000 Non-voting deferred shares – HK\$1,000,000	100%	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	100%	Manufacture and sales of handbags and luggage
Lee & Man Management	Hong Kong	Ordinary shares – HK\$2	100%	Provision of management and administration services
Lee & Man Handbag (Thailand) Co., Ltd.	Thailand	Shares – 30,000,000 Baht	100%	Manufacture of handbags and luggage in Thailand

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

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

# Notes to the Financial Statements

For the year ended 31 March 2004

## 33. PRINCIPAL SUBSIDIARIES (CONTINUED)

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.