

Contents

CORPORATE INFORMATION	2
NOTICE OF ANNUAL GENERAL MEETING	3
CHAIRMAN'S STATEMENT	4-5
MANAGEMENT DISCUSSION AND ANALYSIS	6-8
PROFILE OF DIRECTORS AND SENIOR MANAGEMENT	9-10
DIRECTORS' REPORT	11-15
AUDITORS' REPORT	16
CONSOLIDATED INCOME STATEMENT	17
CONSOLIDATED BALANCE SHEET	18
BALANCE SHEET	19
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	20-21
CONSOLIDATED CASH FLOW STATEMENT	22-23
NOTES TO THE FINANCIAL STATEMENTS	24-49
FINANCIAL SUMMARY	50

Corporate Information

BOARD OF DIRECTORS

Ms. WAI Siu Kee (Chairman)
Ms. POON Lai Ming
Mr. NG Yu Hung
Ms. LEE Marina Man Wai
Mr. LEE Ming Cheong, Alfred*
Mr. WAN Chi Keung, Aaron*

* *Independent non-executive director*

COMPANY SECRETARY

Mr. Cheung Kwok Keung

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
British West Indies

PRINCIPAL OFFICE

8th Floor, Liven House
61-63 King Yip Street
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Secretaries Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

WEBSITE

<http://www.leeman.com.hk>



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of the Members of the Company will be held at The Ballroom “B”, 2/F, Great Eagle Hotel, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong on 19 August 2003 (Tuesday) at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and reports of the Directors and Auditors for the year ended 31 March 2003.
2. To re-elect directors and to authorise the Board of Directors to fix their remuneration.
3. To re-appoint Deloitte Touche Tohmatsu as Auditors and to authorise the Board of Directors to fix their remuneration.

By Order of the Board
Cheung Kwok Keung
Company Secretary

Hong Kong, 16 July 2003

Notes:

- (a) The register of Members of the Company will be closed from 14 August 2003 (Thursday) to 19 August 2003 (Tuesday) (both days inclusive) during which period no share transfer will be registered. All transfer documents accomplished by the relevant share certificates must be lodged with the Company’s Share Registrars in Hong Kong, Secretaries Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 13 August 2003.
- (b) Every Member entitled to attend and vote at the annual general meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a Member of the Company.
- (c) A form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company’s Share Registrars in Hong Kong, Secretaries Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the annual general meeting or adjournment meeting (as the case may be) and in default the proxy shall not be treated as valid.

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to the shareholders the annual report for Lee & Man Handbag International Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2003.

RESULTS AND DIVIDENDS

The Group's audited consolidated turnover for the year was HK\$919,261,000 and the audited consolidated profit attributable to shareholders was HK\$115,683,000.

An interim dividend of HK\$0.03 per share was paid during the year.

The directors resolved to recommend the payment of a final dividend of HK\$0.05 per share for the year under review.

BUSINESS REVIEW

For the year ended 31 March 2003, the Group achieved an increase of 30.6% in turnover to HK\$919 million and the profit attributable to shareholders increased by 45.9% to HK\$116 million. Given the current stagnant market conditions, the Group considered this performance is very encouraging.

The Group manufactures a wide range of handbag products and sales to a broad and diversified customer base mainly located in United States and Europe. The U.S. market continued to be the largest market of the Group, accounting for 75.1% of turnover and recorded an increase of 40.1% of sales compared to last year. The European market recorded a moderate increase of 2.3% of sales and it accounted for 19.2% of the turnover of the Group. Due to the increased demand from our customers in both of the U.S. and European markets, the Group continued to achieve a steady growth in turnover. This reflects the Group's marketing efforts to diversify the customer base in our major geographical markets.

The growth of gross margin of the business can be maintained despite the increased pricing pressure, due to the enhancement of quality of the management staff and the rebuilding of the majority of the production facilities in China in order to increase the production efficiency. As China has emerged the low cost location for the global supply of the handbag products, our strategic location in China, which combines scale advantages of our production facilities and a well-trained local workforce, enables us to deliver high quality and competitive-priced products to our global customers. We will continue to increase our strength in the product design and product development capabilities, to keep abreast of the latest market trends and new materials in order to produce more originally designed fashionable handbag products to attract more and more multi-national retailers to become our business partners and to increase our market share in the global handbag industry.

Chairman's Statement

Staff

For the year ended 31 March 2003, the Group's operations had a workforce of more than 6,000 people. The Group maintains a good relationship with its employees, and provides them with proper training, and competitive compensation and incentives. The Group's success in retaining staff is well illustrated by the fact that most of the senior managers have been with the Group for over 10 years.

Prospects

Being one of the largest key manufacturers in the global handbag industry, the Group performed well in exploring the markets, in developing new products and controlling cost. With our committed management team, we are confident to maintain its good performance in the years ahead. The Group had accumulated substantial experience as a result of doing business in China for over twenty years and had developed extensive relationship and established good reputation in China. With these favourable attributes, the Group will be in a well position to seek investment opportunities to capture the growth potential of the PRC market.

APPRECIATION

We thank all our customers, suppliers and all members of our management team and staff for their loyalty, dedication, and contribution during the year under review.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 16 July 2003

Management Discussion and Analysis

RESULTS OF OPERATION

The turnover of the Group increased by 30.6% to HK\$919 million and the profit attributable to shareholders was HK\$116 million for the year, which was increased by 45.9% as compared to previous financial year. The earnings per share for the year was HK14.0 cents when compared with HK9.6 cents in last year.

The United States market continued to be the largest market for the Group's products. Sales to the United States constituted 75.1% of Group turnover compared with 70.1% in 2002. Sales to Europe amounted to 19.2% compared with 24.5% in 2002. Other markets collectively accounted for 5.7% compared with 5.4% in 2002. Due to the increased demand from our customers in both of the U.S. and European markets, the Group continued to achieve a steady growth in turnover.

During the year under review, the gross profit margin of the Group was increased to 35.2% due to the increased sales of originally designed products. This increased in gross profit margin was mainly the result of our strategic expenditure in the area of design and marketing. Accordingly, the distribution expenses were increased by 57.5% to HK\$80 million and the administration expenses were increased by 28.0% to HK\$127 million for the current year under review. As a result of the significant increase in the turnover, the Group achieved a substantial growth in profit attributable to shareholders as compared with 2002. Given the current stagnant market conditions, the Group considered this performance is very encouraging.

BUSINESS AND OPERATION REVIEW

A detailed review of the Group's business operations and prospects is included in the Chairman's Statement.

CAPITAL STRUCTURE

The Company was incorporated in the Cayman Islands on 27 July 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each, one share of which was issued nil paid on 22 August 2001.

In preparation for the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited, the following changes in authorised and issued share capital of the Company took place on 14 December 2001:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of an additional 4,999,000,000 shares of HK\$0.1 each; and
- (b) the Company issued an aggregate of 824,999,999 shares of HK\$0.1 each, credited as fully paid and to credit as fully paid at par the one share issued nil paid on 22 August 2001.

Details of the changes in share capital of the Company during the year are set out in note 21 to the financial statements.

Management Discussion and Analysis

FINANCIAL RESOURCES

The total shareholders' fund of the Group as at 31 March 2003 was approximately HK\$328 million (31 March 2002: HK\$235 million).

The Group maintains a very strong financial position with a very low level of debts and a high liquidity. The Group ended the year with a current ratio of 3.0 (31 March 2002: 2.3) and a zero (31 March 2002: zero) gearing ratio.

The Group had a net cash surplus of approximately HK\$65 million (2002: HK\$16 million) and was deposited in the leading banks in Hong Kong in either Hong Kong dollars or United States dollars.

Net cash inflow provided by operating activities totaled approximately HK\$89 million (2002: HK\$61 million). The consistent strong cash flow from operating activities reflects the Group's strength in the working capital management to support the business operations. The Group's future cash flow and its available banking facilities will provide sufficient funds to the Group to meet its operation requirements.

FUNDING POLICY

The Group's transactions and the monetary assets are principally denominated in Hong Kong dollars or United States dollars. As a result, the Group has a minimal exposure to foreign exchange risk.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2003, the Group had capital commitments of approximately HK\$794,000 in respect of the acquisition of property, plant and equipment. The Group had no material contingent liabilities other than trade bills discounted in the ordinary course of business.

PLEDGE OF ASSETS

At 31 March 2003, the Group did not have any assets pledged for general facilities.

HUMAN RESOURCES

At 31 March 2003, the Group had a workforce of more than 6,000 people. Remuneration packages comprised salary and bonuses based on individual merits. The Group believes that its remuneration packages are competitive as compared with other companies in the industry.

The Company has a share option scheme under which the executive directors and employees of the Company and its subsidiaries may be granted options to subscribe for ordinary shares in the Company. Up to 31 March 2003, no option was granted under the scheme.

Management Discussion and Analysis

AUDIT COMMITTEE

Pursuant to the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, an Audit Committee of the Company was established.

The Audit Committee consists of two independent non-executive directors, namely Mr. Lee Ming Cheong, Alfred and Mr. Wan Chi Keung, Aaron. The principal activities of the Audit Committee include the review of the Group's internal control system and financial reporting matters including the review of connected transactions and unaudited financial statements. They have met with the executive directors and the external auditors to consider the nature and scope of the audit.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. WAI Siu Kee, aged 59, is the chairman of the Company who joined the Group since its establishment in 1976. Ms. Wai has more than 38 years of experience in the handbag business. She is responsible for the development of corporate strategies, corporate planning and overall management of the Group and in particular the marketing and development of the business of the Group.

Ms. POON Lai Ming, aged 47, joined the Group in 1976. She has over 25 years of experience in the handbag industry. She is responsible for the overall management and the operation of the Group's manufacturing activities in the PRC.

Mr. NG Yu Hung, aged 49, joined the Group in 1977. He has over 27 years of experience in the handbag industry. He is responsible for the marketing and development of the Group's business in the European market.

Ms. LEE Marina Man Wai, aged 31, joined the Group in 1993. She graduated from the University of British Columbia, Canada with a bachelor's degree in arts. She is responsible for marketing and development of the business in the US market.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEE Ming Cheong Alfred, aged 59, Mr. Lee holds a bachelor's degree in Science and a master degree of Arts in Economics. Mr. Lee has more than 31 years of experience in management spanning a diverse range of business from trading, manufacturing, share brokerage to property investment. He is currently an executive director of a private investment company.

Mr. WAN Chi Keung, Aaron JP, aged 54, is an associate of the Institution of Business Agents, a member of the Land Institute (London), an associate of the Chartered Institute of Arbitrators and a fellow of The Institute of Administrative Accounting. He is engaged in the business of property valuation and property auction and has over 16 years related experience.

Profile of Directors and Senior Management

SENIOR MANAGEMENT

Mr. CHEUNG Kwok Keung, aged 36, is the company secretary of the Company. He joined the Group in August 2002 and has over 14 years' experience in the field of auditing and accounting. Mr. Cheung holds a professional diploma in accountancy from the Hong Kong Polytechnic University. Mr. Cheung is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

Ms. LEE Lai Chu, Janet, aged 43, is the senior manager of the Group. She joined the Group in 1977 and has over 25 years' experience in the sales and marketing of handbag products. She is responsible for the sales and marketing of the Group's business in the U.S. market.

Mr. CHIU Shun King, aged 40, is the production manager of the Group. He joined the Group in 1984 and has over 18 years' experience in the handbag industry. He is responsible for production planning and overall production management of the Group's factory in Gao Bu Industrial Park.

Ms. LI Yuen Ling, aged 41, is the finance manager of the Group. She joined the Group in 1984 and has over 18 years of experience in accounting and finance for manufacturing operations. She is responsible for the Group's accounting activities.

Ms. TSUI Chin Wai, Jennifer, aged 38, is the sales manager of the Group. She joined the Group in 1990. She graduated from the State University of New York with a master's degree in business administration. She is responsible for the sales and marketing of the Group's business in the European market.

Mr. CHENG Ming Kwong, aged 47, is the assistant finance manager of the Group. He joined the Group in 1992. He holds a bachelor's degree of commercial science in accounting and banking from Chu Hai College. He is responsible for the management accounting of the Group's factory in Gao Bu Industrial Park.

Mr. CHAN Kam Bun, aged 54, is the business manager of the Group. He joined the Group in 1982 and has over 37 years' experience in the handbag business. He is responsible for the business development of the Group.

Ms. CHEUNG Lai Yee, aged 44, is the purchase manager of the Group. She joined the Group in 1983 and has over 20 years' purchase experience in the handbag industry. She is responsible for the purchase function of the Group.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 30 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 17.

An interim dividend of HK\$0.03 per share amounting to HK\$24,750,000 was paid to the shareholders during the year.

The directors recommend the payment of a final dividend of HK\$0.05 per share to the shareholders on the register of members on 19 August 2003, amounting to HK\$41,250,000.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 21 to the financial statements.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 22 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$16 million for the purpose of expanding its business. In addition, the Group revalued its property, plant and equipment at 31 March 2003. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Wai Siu Kee (*Chairman*)

Poon Lai Ming

Ng Yu Hung

Lee Marina Man Wai

Lee Wan Keung (resigned on 28 January 2003)

Hui Yick Kwan, Tony (resigned on 28 January 2003)

Independent non-executive directors

Lee Ming Cheong, Alfred

Wan Chi Keung, Aaron

Wong Kai Tung, Tony (resigned on 24 December 2002)

Heng Kwoo Seng (resigned on 24 December 2002)

In accordance with Article 87 of the Company's Articles of Association, Poon Lai Ming and Ng Yu Hung retire and, being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Articles of Association.

Each of the executive directors has entered into a service agreement with the Company for an initial period of three years commencing 1 January 2002, which will continue thereafter unless and until terminated by either party by three months' prior written notice.

Directors' Report

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2003, the interests of directors and their associates in the ordinary shares of the Company and of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

Name of director	Number of ordinary shares in the Company held			
	Personal interest	Family interest	Corporate interest	Other interest
Wai Siu Kee	–	–	–	609,750,000 (Note)
Poon Lai Ming	1,000,000	–	–	–
Ng Yu Hung	–	–	–	–
Lee Marina Man Wai	–	–	–	–
Lee Ming Cheong, Alfred	–	–	–	–
Wan Chi Keung, Aaron	–	–	–	–

Note: 609,750,000 ordinary shares in the Company were held by Fortune Star Tradings Ltd., a company wholly-owned by Newcourt Trustees Limited as trustee for The Fortune Star 1992 Trust, a discretionary trust the discretionary objects of which include Ms. Wai Siu Kee.

Save as disclosed above, none of the directors or any of their associates had any interest in the securities of the Company or any of its associated corporations as at 31 March 2003 as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme detailed in note 22 to the financial statements, at no time during the year was the Company, its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the heading "Directors' interests in securities", the Company had not been notified of any interests representing 10% or more of the Company's issued share capital.

Directors' Report

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 29 to the financial statements. In the opinion of the independent non-executive directors, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either (a) on normal commercial terms; or (b) where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) either (a) in accordance with the terms of the agreements; or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
- (iv) within the relevant cap amounts as agreed by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the heading “Connected transactions”, there were no contracts of significance to which the Company, its holding company or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 55% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 26% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases.

None of the directors, their associates or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers of the Group.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Wai Siu Kee
Chairman

Hong Kong, 16 July 2003

Auditors' Report

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF LEE & MAN HANDBAG INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 17 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 16 July 2003

Consolidated Income Statement

For the year ended 31 March 2003

	<i>NOTES</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (As restated)
Turnover		919,261	703,791
Cost of sales		(595,560)	(477,270)
Gross profit		323,701	226,521
Other operating income		11,794	10,245
Distribution costs		(79,842)	(50,708)
Administrative expenses		(126,958)	(99,211)
Profit from operations	5	128,695	86,847
Interest on bank borrowings wholly repayable within five years		(396)	(934)
Profit before taxation		128,299	85,913
Taxation	8	(12,616)	(6,635)
Profit attributable to shareholders		115,683	79,278
Dividends	9	66,000	91,250
Earnings per share (HK cents)	10	14.0	9.6

Consolidated Balance Sheet

At 31 March 2003

	<i>NOTES</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (As restated)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	128,932	127,519
Deposits paid on acquisition of property, plant and equipment	<i>12</i>	5,094	–
		134,026	127,519
CURRENT ASSETS			
Inventories	<i>14</i>	100,860	84,486
Trade and other receivables	<i>15</i>	113,060	71,560
Bills receivable		18,760	7,788
Defined benefit assets	<i>28</i>	4,452	4,241
Amount due from a related company	<i>16</i>	77	–
Taxation recoverable		–	178
Bank balances and cash		65,679	18,951
		302,888	187,204
CURRENT LIABILITIES			
Trade and other payables	<i>17</i>	90,398	69,135
Bills payable		149	1,282
Amounts due to related companies	<i>18</i>	1,127	812
Taxation payable		7,618	1,148
Land and buildings costs payable – due within one year	<i>19</i>	2,932	–
Short-term bank borrowings	<i>20</i>	228	7,555
		102,452	79,932
NET CURRENT ASSETS		200,436	107,272
TOTAL ASSETS LESS CURRENT LIABILITIES		334,462	234,791
NON-CURRENT LIABILITIES			
Land and buildings costs payable – due after one year	<i>19</i>	6,916	–
		327,546	234,791
CAPITAL AND RESERVES			
Share capital	<i>21</i>	82,500	82,500
Reserves		245,046	152,291
		327,546	234,791

The financial statements on pages 17 to 49 were approved and authorised for issue by the Board of Directors on 16 July 2003 and are signed on its behalf by:

Wai Siu Kee
Chairman

Lee Marina Man Wai
Director

Balance Sheet

At 31 March 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	13	215,145	215,145
CURRENT ASSETS			
Other receivable		–	7
Amount due from a subsidiary		41,700	–
Bank balance		53	126
		41,753	133
CURRENT LIABILITIES			
Other payables		275	300
Amount due to a subsidiary		–	5,300
		275	5,600
NET CURRENT ASSETS (LIABILITIES)		41,478	(5,467)
		256,623	209,678
CAPITAL AND RESERVES			
Share capital	21	82,500	82,500
Reserves	23	174,123	127,178
		256,623	209,678

Wai Siu Kee
Chairman

Lee Marina Man Wai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2003

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001, as originally stated	–	–	8,464	(1,456)	(67,990)	195,899	134,917
Prior year adjustment (<i>note 2</i>)	–	–	–	–	–	4,029	4,029
As restated	–	–	8,464	(1,456)	(67,990)	199,928	138,946
Surplus arising on revaluation of property, plant and equipment	–	–	4,528	–	–	–	4,528
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	482	–	–	482
Net gains not recognised in the consolidated income statement	–	–	4,528	482	–	–	5,010
	–	–	12,992	(974)	(67,990)	199,928	143,956
Issue of shares	82,500	20,307	–	–	–	–	102,807
Realised on depreciation of property, plant and equipment	–	–	(500)	–	–	500	–
Realised on disposal of property, plant and equipment	–	–	(340)	–	–	340	–
Profit attributable to shareholders	–	–	–	–	–	79,278	79,278
Dividends	–	–	–	–	–	(91,250)	(91,250)
At 31 March 2002	82,500	20,307	12,152	(974)	(67,990)	188,796	234,791
Surplus arising on revaluation of property, plant and equipment	–	–	1,600	–	–	–	1,600
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	222	–	–	222
Net gains not recognised in the consolidated income statement	–	–	1,600	222	–	–	1,822
	82,500	20,307	13,752	(752)	(67,990)	188,796	236,613
Realised on depreciation of property, plant and equipment	–	–	(450)	–	–	450	–
Realised on disposal of property, plant and equipment	–	–	(47)	–	–	47	–
Profit attributable to shareholders	–	–	–	–	–	115,683	115,683
Dividends (<i>note 9</i>)	–	–	–	–	–	(24,750)	(24,750)
At 31 March 2003	82,500	20,307	13,255	(752)	(67,990)	280,226	327,546

Consolidated Statement of Changes in Equity

For the year ended 31 March 2003

The special reserve of the Group represents:

- (i) the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation in December 2001; and
- (ii) the special reserve of a subsidiary, Lee & Man Development Company Limited (“Lee & Man Development”), and which represents the difference between the nominal value of the share capital issued by Lee & Man Development and the nominal amount of the share capital of subsidiaries acquired by it pursuant to a group organisation in 1993.

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (As restated)
OPERATING ACTIVITIES		
Profit from operations	128,695	86,847
Adjustments for:		
Interest income	(536)	(1,704)
Depreciation and amortisation	10,786	10,543
Loss on disposal of property, plant and equipment	3,181	37
Bad debts written off	925	4,158
Listing expenses	–	4,919
Deficit arising on revaluation of property, plant and equipment	1,962	773
Operating cash flows before movements in working capital	145,013	105,573
(Increase) decrease in inventories	(16,374)	4,590
Increase in trade and other receivables	(42,425)	(17,711)
Increase in bills receivable	(10,972)	(1,811)
Increase in defined benefit assets	(211)	(212)
Increase in amount due from a related company	(77)	–
Increase (decrease) in trade and other payables	21,263	(12,453)
(Decrease) increase in bills payable	(1,133)	1,282
Increase (decrease) in amounts due to related companies	315	(11,077)
Cash generated from operations	95,399	68,181
Interest paid	(396)	(934)
Hong Kong Profits Tax paid	(6,110)	(6,499)
Hong Kong Profits Tax refunded	178	–
Overseas taxation paid	(36)	(13)
NET CASH FROM OPERATING ACTIVITIES	89,035	60,735
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(5,686)	(7,475)
Deposits paid on acquisition of property, plant and equipment	(5,094)	–
Interest received	536	1,704
Proceeds from disposal of property, plant and equipment	14	646
NET CASH USED IN INVESTING ACTIVITIES	(10,230)	(5,125)

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (As restated)
FINANCING ACTIVITIES		
Dividends paid	(24,750)	(91,250)
Repayment of bank borrowings	(4,936)	(2,340)
Expenses incurred in connection with listing of shares	–	(4,919)
New bank borrowings raised	–	4,936
NET CASH USED IN FINANCING ACTIVITIES	(29,686)	(93,573)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	49,119	(37,963)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	16,332	54,295
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	65,451	16,332
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as previously reported		13,892
Effect of reclassification of trust receipt and import loans		2,440
Cash and cash equivalents as restated		16,332
Being:		
Bank balances and cash	65,679	18,951
Bank overdrafts	(228)	(2,619)
	65,451	16,332

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
	919,261	703,791	128,159	85,143
Interest income			536	1,704
Interest on bank borrowings wholly repayable within five years			(396)	(934)
Profit before taxation			128,299	85,913
Taxation			(12,616)	(6,635)
Profit attributable to shareholders			115,683	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
	436,914	314,723	15,534	7,475

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	137,861	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
	4,434	3,827

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	–
	27,377	8,335

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
	12,616	6,635

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
	66,000	91,250

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
THE GROUP							
COST OR VALUATION							
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
DEPRECIATION AND AMORTISATION							
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	–	–	–	–	–	–	–
NET BOOK VALUE							
At 31 March 2003	94,198	8,818	10,767	1,822	179	13,148	128,932
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>
THE GROUP							
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)
Net book value							
At 31 March 2003	95,420	5,427	9,995	566	5	6,997	118,410
At 31 March 2002	93,015	4,186	10,645	704	21	7,569	116,140

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

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

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

Unlisted shares (Note)	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 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
	100,860	84,486

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
	94,947	63,628

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
	49,399	46,185

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>
THE COMPANY				
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)
	(211)	(212)

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)
	4,452	4,241

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	4,452	4,241

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.

Financial Summary

	Year ended 31 March				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
RESULTS					
Turnover	559,921	599,007	693,921	703,791	919,261
Profit before taxation	102,422	92,610	85,898	85,913	128,299
Taxation	(13,728)	(8,608)	(7,298)	(6,635)	(12,616)
Profit attributable to shareholders	88,694	84,002	78,600	79,278	115,683

	At 31 March				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	
ASSETS AND LIABILITIES					
Total assets	295,863	319,218	341,315	314,723	436,914
Total liabilities	(89,479)	(112,188)	(131,869)	(79,932)	(109,368)
Shareholders' funds	206,384	207,030	209,446	234,791	327,546

Notes:

- (i) The Company was incorporated and registered as an exempted company in the Cayman Islands on 27 July 2001 and became the holding company of the Group as a result of a group reorganisation in December 2001. The financial summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.
- (ii) The figures of 2001 and 2002 have been restated due to a change in accounting policies following the adoption of new/ revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants. The figures of 1999 and 2000 have not been restated.



LEE & MAN HANDBAG INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Form of proxy for use at the Annual General Meeting (and at any adjournment thereof) to be held on 19 August 2003

I/We ^(Note 1) _____
of _____
being the registered holder(s) of _____ shares ^(Note 2) of HK\$0.10 each in the share capital of the above named Company (the "Company") HEREBY APPOINT THE CHAIRMAN OF THE MEETING ^(Note 3) or _____
_____ of _____
_____ as my/our proxy to vote and act for me/us at the Annual General Meeting (and any adjournment thereof) of the Company to be held at The Ballroom "B", 2/F, Great Eagle Hotel, 8 Peking Road, Kowloon, Hong Kong on 19 August 2003 at 11:00 a.m. for the purposes of considering and, if thought fit, passing the Resolutions as set out in the Notice convening the said meeting and at such meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the Resolutions as indicated below ^(Note 4).

RESOLUTIONS	FOR	AGAINST
1. To receive and consider the Audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 2003.		
2. (i) To re-elect directors.	i)	i)
(ii) To authorise the Board of Directors to fix their remuneration.	ii)	ii)
3. To re-appoint Messrs. Deloitte Touche Tohmatsu as Auditors and to authorise the Board of Directors to fix their remuneration.		

Dated this _____ day of _____ 2003 Signed _____

Notes:

- Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
- Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
- If any proxy other than the Chairman is preferred, strike out "THE CHAIRMAN OF THE MEETING" here inserted and insert the name and address of the proxy desired in the space provided. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
- IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTIONS, TICK THE APPROPRIATE BOXES MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTIONS, TICK THE APPROPRIATE BOXES MARKED "AGAINST". Failure to complete any or all the boxes will entitle your proxy to cast his votes at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than those referred to in the Notice convening the meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation must be either executed under its common seal or under the hand of an officer or attorney duly authorised.
- Every member of the Company entitled to attend and vote at the above meeting is entitled to appoint or more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company but must attend the meeting in person to represent you.
- In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names stand in the Register of Members.
- To be valid, this form of proxy together with the power of attorney (if any) or other authority under which it is signed or a notarially certified copy thereof, must be deposited at the Company's Share Registrars in Hong Kong, Secretaries Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time for holding the meeting or adjourned meeting (as the case may be).
- Completion and delivery of the form of proxy will not preclude you from attending and voting at the Annual General Meeting if you so wish, in such event, the instrument appointing a proxy shall be deemed to be revoked.