

Contents

CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3-4
MANAGEMENT DISCUSSION AND ANALYSIS	5-6
PROFILE OF DIRECTORS AND SENIOR MANAGEMENT	7-8
DIRECTORS' REPORT	9-14
AUDITORS' REPORT	15
CONSOLIDATED INCOME STATEMENT	16
CONSOLIDATED BALANCE SHEET	17
BALANCE SHEET	18
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	19-20
CONSOLIDATED CASH FLOW STATEMENT	21-22
NOTES TO THE FINANCIAL STATEMENTS	23-49
FINANCIAL SUMMARY	50

Corporate Information

BOARD OF DIRECTORS

Ms. WAI Siu Kee (*Chairman*)
Ms. POON Lai Ming
Ms. LEE Marina Man Wai
Ms. LEE Lai Chu
Mr. WAN Chi Keung, Aaron JP*
Mr. HENG Kwoong Seng*

* *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 (HK) Ltd

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>

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to the shareholders the annual report for Lee & Man Holding Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2004.

RESULTS AND DIVIDENDS

The Group's audited consolidated turnover for the year was HK\$955,750,000 and the audited consolidated profit attributable to shareholders was HK\$102,161,000.

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 2004, the Group achieved an increase of 4.0% in turnover to HK\$956 million and the profit attributable to shareholders decreased by 11.7% to HK\$102 million.

The Group manufactures a wide range of handbag products and sales to a broad and diversified customer base mainly located in the United States and Europe. The United States market continued to be the largest market of the Group, accounting for 78.1% of turnover and recorded an increase of 8.1% of sales compared to last year. The European market recorded a moderate decrease of 2.0% of sales and it accounted for 18.1% of the turnover of the Group.

During the year under review, the Group continued to invest resources in the area of product design and product development in order to produce more originally designed fashionable handbag products. The Group can therefore maintain a moderate increase in turnover despite the increased pricing pressure. As a result of the continued increasing in the raw material costs and the increased expenditure spent in the area of product design and marketing promotion, the Group's operating profit has been decreased.

Prospects

Being one of the largest key manufacturers in the global handbag industry, the Group performed well in product design and in exploring new markets. The orders from our customers so far appear quite encouraging. The Group will continue to process a strong competitive position in the market place and the business is expected to achieve a steady result.

Chairman's Statement

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, 6 July 2004

Management Discussion and Analysis

RESULTS OF OPERATION

The turnover of the Group increased by 4.0% to HK\$956 million and the profit attributable to shareholders was HK\$102 million for the year, which was decreased by 11.7% as compared to previous financial year. The earnings per share for the year was HK12.4 cents when compared with HK14.0 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 78.1% of the Group's turnover compared with 75.1% in 2003. Sales to Europe amounted to 18.1% compared with 19.2% in 2003. Other market collectively accounted for 3.8% compared to 5.7% in 2003.

During the year under review, the gross profit margin of the Group was 35.4% which was comparable to 35.2% in last year. The slightly increase was due to the increased sales of originally designed products under licence agreements. Accordingly, the distribution expenses were increased by 40.9% to HK\$112 million and the administration expenses were increased by 4.1% to HK\$132 million for the current year under review.

BUSINESS AND OPERATION REVIEW

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 31 March 2004 was approximately HK\$366 million (31 March 2003: HK\$328 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 2.9 (31 March 2003: 3.0) and zero (31 March 2003: zero) gearing ratio.

The Group had a net cash surplus of approximately HK\$106 million (2003: HK\$65 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\$94 million (2003: HK\$89 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 from operations and its available banking facilities will provide sufficient funds to the Group to meet its operation requirements.

Management Discussion and Analysis

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 2004, the Group had capital commitments of approximately HK\$1,232,000 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

As at 31 March 2004, 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 were pledged for advances from a factoring company in the United States.

HUMAN RESOURCES

At 31 March 2004, 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 2004, no option was granted under the scheme.

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. Heng Kwo Seng and Mr. Wan Chi Keung, Aaron JP. 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 60, is the chairman of the Company who joined the Group since its establishment in 1976. Ms. Wai has more than 39 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 48, joined the Group in 1976. She has over 26 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.

Ms. LEE Marina Man Wai, aged 32, 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 United States market.

Ms. LEE Lai Chu, aged 44, joined the Group in 1977. She has over 26 years of experience in the sales and marketing of handbag products. She is responsible for the sales and marketing of the Group's business in the United States market.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WAN Chi Keung, Aaron JP, aged 55, 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 17 years of related experience.

Mr. HENG Kwoo Seng, aged 56, is the managing partner of Morison Heng, Chartered Accountants and Certified Public Accountants in Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales and an associate member of the Hong Kong Society of Accountants. He has worked with a number of companies listed on The Stock Exchange of Hong Kong Limited either in the capacity of company secretary or as an independent non-executive director.

Profile of Directors and Senior Management

SENIOR MANAGEMENT

Mr. NG Yu Hung, aged 50, is the senior manager of the Group. He joined the Group in 1977. He has over 28 years of experience in the handbag industry. He is responsible for the marketing and development of the Group's business in the European market.

Mr. CHEUNG Kwok Keung, aged 37, is the company secretary of the Company. He joined the Group in 2002 and has over 15 years of experience in the field of auditing and accounting. He holds a professional diploma in accountancy from the Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. CHIU Shun King, aged 41, is the production manager of the Group. He joined the Group in 1984 and has over 19 years of 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.

Mr. LEUNG Chi Hung, aged 38, is the financial controller of the Group. He joined the Group in 2004 and has over 14 years of experience in the field of auditing and accounting. He holds a master's degree in professional accounting from the Hong Kong Polytechnic University. He is also an associate member of the Hong Kong Society of Accountants.

Ms. LI Yuen Ling, aged 42, is the finance manager of the Group. She joined the Group in 1984 and has over 19 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 39, 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 48, 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 55, is the business manager of the Group. He joined the Group in 1982 and has over 38 years of experience in the handbag business. He is responsible for the business development of the Group.

Mr. LEE Man Yan, aged 27, is the merchandising manager of the Group. He joined the Group in 2000. He graduated from the University of British Columbia, Canada with a bachelor's degree in commerce. He is responsible for the sales and marketing of the Group's business in the United States market. Mr. Lee is a son of Ms. Wai Siu Kee, the Group's chairman.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

CHANGE OF NAME

Pursuant to a special resolution passed at extraordinary general meeting held on 19 August 2003, the name of the Company was changed from Lee & Man Handbag International Limited to Lee & Man Holding Limited.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 33 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 16.

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 16 August 2004, amounting to HK\$41,250,000.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 22 to the financial statements.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$11 million for the purpose of expanding its business. In addition, the Group revalued its property, plant and equipment at 31 March 2004. Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 12 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

Lee Marina Man Wai

Lee Lai Chu (appointed on 19 August 2003)

Ng Yu Hung (resigned on 19 August 2003)

Independent non-executive directors

Wan Chi Keung, Aaron JP

Heng Kwoo Seng (appointed on 3 November 2003)

Lee Ming Cheong, Alfred (resigned on 3 November 2003)

In accordance with Article 86(3) and Article 87(1) of the Company's Articles of Association, Wai Siu Kee, Lee Lai Chu, Heng Kwoo Seng and Wan Chi Keung, Aaron JP 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.

Except for Lee Lai Chu, 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2004, the interests and short positions of directors and the chief executives and their associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wai Siu Kee	Discretionary object	617,000,000 (Note)	74.79%
Poon Lai Ming	—	—	—
Lee Marina Man Wai	—	—	—
Lee Lai Chu	Beneficial owner	1,000,000	0.12%
Wan Chi Keung, Aaron JP	—	—	—
Heng Kwoo Seng	—	—	—

Note: 617,000,000 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 that the discretionary objects of which include Wai Siu Kee.

Save as disclosed above, none of the directors or the chief executives, or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

A share option scheme which detailed in note 23 to the financial statements was adopted by the Company on 14 December 2001, under which the directors or chief executives or their associates of the Company may be granted options to subscribe for shares in the Company. No options were granted by the Company under the scheme since its adoption.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

At 31 March 2004, shareholders (other than directors of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Fortune Star Tradings Ltd.	Beneficial owner	617,000,000	74.79%
Value Partners Limited	Investment manager	65,350,000	7.92%
Mr. Cheah Cheng Hye	Interest of controlled corporation	65,350,000 (Note)	7.92%

Note: Mr. Cheah Cheng Hye is deemed to be interested in the shares through his 31.82% interest in Value Partners Limited.

Save as disclosed above, as at 31 March 2004, the Company has not been notified by any persons (other than directors of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Report

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 32 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.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of 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 49% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 25% 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 2004 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, 6 July 2004

Auditors' Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF LEE & MAN HOLDING LIMITED (FORMERLY KNOWN AS LEE & MAN HANDBAG INTERNATIONAL LIMITED)

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 16 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2004 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, 6 July 2004

Consolidated Income Statement

For the year ended 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover		955,750	919,261
Cost of sales		(617,029)	(595,560)
Gross profit		338,721	323,701
Other operating income		17,996	11,794
Distribution costs		(112,462)	(79,842)
Administrative expenses		(132,106)	(126,958)
Profit from operations	5	112,149	128,695
Finance costs	6	(777)	(396)
Gain on partial disposal of interest in a subsidiary	25	1,548	–
Profit before taxation		112,920	128,299
Income tax expenses	9	(9,876)	(12,616)
Profit before minority interests		103,044	115,683
Minority interests		(883)	–
Profit attributable to shareholders		102,161	115,683
Dividends	10	(66,000)	(66,000)
Earnings per share (HK cents)	11	12.4	14.0

Consolidated Balance Sheet

At 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	133,860	128,932
Deposits paid on acquisition of property, plant and equipment	13	5,094	5,094
		138,954	134,026
CURRENT ASSETS			
Inventories	15	105,684	100,860
Trade and other receivables	16	119,596	113,060
Bills receivable		38,463	18,760
Defined benefit assets	31	3,910	4,452
Amount due from a related company	17	20	77
Taxation recoverable		1,789	—
Bank balances and cash		106,220	65,679
		375,682	302,888
CURRENT LIABILITIES			
Trade and other payables	18	101,981	90,398
Bills payable		—	149
Amounts due to related companies	19	1,545	1,127
Taxation payable		1,272	7,618
Land and buildings costs payable – due within one year	20	6,916	2,932
Bank and other borrowings	21	19,904	228
		131,618	102,452
NET CURRENT ASSETS		244,064	200,436
TOTAL ASSETS LESS CURRENT LIABILITIES		383,018	334,462
NON-CURRENT LIABILITIES			
Land and buildings costs payable – due after one year	20	—	6,916
MINORITY INTERESTS		16,547	—
		366,471	327,546
CAPITAL AND RESERVES			
Share capital	22	82,500	82,500
Reserves		283,971	245,046
		366,471	327,546

The financial statements on pages 16 to 49 were approved and authorised for issue by the Board of Directors on 6 July 2004 and are signed on its behalf by:

Wai Siu Kee
Chairman

Lee Marina Man Wai
Director

Balance Sheet

At 31 March 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	14	215,145	215,145
CURRENT ASSETS			
Amount due from a subsidiary		41,700	41,700
Bank balance		86	53
		41,786	41,753
CURRENT LIABILITIES			
Other payables		324	275
NET CURRENT ASSETS			
		41,462	41,478
		256,607	256,623
CAPITAL AND RESERVES			
Share capital	22	82,500	82,500
Reserves	24	174,107	174,123
		256,607	256,623

Wai Siu Kee
Chairman

Lee Marina Man Wai
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

	Share capital	Share premium	Asset revaluation reserve	Translation reserve	Special reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 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
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 10</i>)	–	–	–	–	–	(24,750)	(24,750)
At 31 March 2003	82,500	20,307	13,255	(752)	(67,990)	280,226	327,546
Surplus arising on revaluation of property, plant and equipment	–	–	1,304	–	–	–	1,304
Exchange differences arising from translation of financial statements of overseas operations	–	–	–	1,460	–	–	1,460
Gains not recognised in the consolidated income statement	–	–	1,304	1,460	–	–	2,764
	82,500	20,307	14,559	708	(67,990)	280,226	330,310
Realised on depreciation of property, plant and equipment	–	–	(575)	–	–	575	–
Realised on disposal of property, plant and equipment	–	–	(380)	–	–	380	–
Profit attributable to shareholders	–	–	–	–	–	102,161	102,161
Dividends (<i>note 10</i>)	–	–	–	–	–	(66,000)	(66,000)
At 31 March 2004	82,500	20,307	13,604	708	(67,990)	317,342	366,471

Consolidated Statement of Changes in Equity

For the year ended 31 March 2004

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 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit from operations	112,149	128,695
Adjustments for:		
Interest income	(799)	(536)
Depreciation and amortisation	11,349	10,786
Loss on disposal of property, plant and equipment	143	3,181
Bad debts written off	494	925
(Surplus) deficit arising on revaluation of property, plant and equipment	(2,648)	1,962
Operating cash flows before movements in working capital	120,688	145,013
Increase in inventories	(4,824)	(16,374)
Increase in trade and other receivables	(7,030)	(42,425)
Increase in bills receivable	(19,703)	(10,972)
Decrease (increase) in defined benefit assets	542	(211)
Decrease (increase) in amount due from a related company	57	(77)
Increase in trade and other payables	22,882	21,263
Decrease in bills payable	(149)	(1,133)
Increase in amounts due to related companies	418	315
Cash generated from operations	112,881	95,399
Interest paid	(777)	(396)
Hong Kong Profits Tax paid	(17,946)	(6,110)
Hong Kong Profits Tax refunded	–	178
Overseas taxation paid	(65)	(36)
NET CASH FROM OPERATING ACTIVITIES	94,093	89,035
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(14,132)	(5,686)
Proceeds from partial disposal of interest in a subsidiary	5,850	–
Interest received	799	536
Proceeds from disposal of property, plant and equipment	255	14
Deposits paid on acquisition of property, plant and equipment	–	(5,094)
NET CASH USED IN INVESTING ACTIVITIES	(7,228)	(10,230)

Consolidated Cash Flow Statement

For the year ended 31 March 2004

	2004 HK\$'000	2003 HK\$'000
FINANCING ACTIVITIES		
Dividends paid	(66,000)	(24,750)
Other borrowings raised	19,751	–
Repayment of bank borrowings	–	(4,936)
NET CASH USED IN FINANCING ACTIVITIES	(46,249)	(29,686)
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,616	49,119
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	65,451	16,332
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	106,067	65,451
Being:		
Bank balances and cash	106,220	65,679
Bank overdrafts	(153)	(228)
	106,067	65,451

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
-------------------	--------------

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")	746,534	690,788	84,868	93,548
Europe	172,970	176,588	22,582	29,726
Hong Kong	16,112	23,311	994	3,033
South America	8,321	11,324	1,400	2,050
Others	11,813	17,250	406	1,764
	955,750	919,261	110,250	130,121
Surplus (deficit) arising on revaluation of property, plant and equipment			2,648	(1,962)
Interest income			799	536
Finance costs			(777)	(396)
Profit before taxation			112,920	128,299
Income tax expenses			(9,876)	(12,616)
Profit before minority interests			103,044	115,683
Minority interests			(883)	—
Profit attributable to shareholders			102,161	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	—	—
	514,636	436,914	11,200	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

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

7. DIRECTORS' EMOLUMENTS

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

The emoluments of the directors were within the following bands:

	2004 Number of directors	2003 Number of directors
Up to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	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:

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

The emoluments were within the following bands:

	2004 Number of employees	2003 Number of employees
HK\$1,500,001 to HK\$2,000,000	3	3
HK\$4,000,001 to HK\$4,500,000	1	—
HK\$7,000,001 to HK\$7,500,000	—	1
HK\$8,000,001 to HK\$8,500,000	1	—
HK\$15,000,001 to HK\$15,500,000	—	1

9. INCOME TAX EXPENSES

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	9,811	12,586
Overseas taxation	65	30
	9,876	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	112,920		128,299	
Tax at the domestic income tax rate of 17.5% (2003: 16%)	19,761	17.5	20,527	16.0
Tax effect of expenses that are not deductible in determining taxable profit	490	0.4	4,069	3.1
Tax effect of income that is not taxable in determining taxable profit	(1,963)	(1.7)	(2,831)	(2.2)
Tax effect of deferred taxation asset not recognised	204	0.2	347	0.3
Tax effect of tax losses not recognised	1,146	1.0	284	0.2
Tax effect of offshore income not subject to tax	(9,280)	(8.3)	(9,762)	(7.6)
Utilisation of tax loss not previously recognised	(701)	(0.6)	(108)	(0.1)
Effect of different tax rates of operation in other jurisdictions	219	0.2	90	0.1
Tax expense and effective tax rate for the year	9,876	8.7	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

	2004	2003
	HK\$'000	HK\$'000
Interim dividend paid of HK\$0.03 (2003: HK\$0.03) per share	24,750	24,750
Final dividend proposed of HK\$0.05 (2003: HK\$0.05) per share	41,250	41,250
	66,000	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 HK\$'000	Buildings under construction HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
THE GROUP								
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:

	Land and buildings	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
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)

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

	THE COMPANY 2004 & 2003 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
	105,684	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
	103,698	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
	71,093	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
	6,916	9,848
Less: Amount due within one year shown under current liabilities	(6,916)	(2,932)
Amount due after one year	–	6,916

Notes to the Financial Statements

For the year ended 31 March 2004

21. BANK AND OTHER BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Other loan	19,751	—
Bank overdrafts	153	228
	19,904	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

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
THE COMPANY				
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.

41

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	5,801	4,261
– equipment	1,724	293
	7,525	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	3,708	3,610	418	239
In the second to fifth year inclusive	5,930	6,232	543	222
Over five years	191	638	–	–
	9,829	10,480	961	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	1,232	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	2,225	22,778	–	–
Guarantees given to banks in respect of credit facilities extended to subsidiaries	–	–	93,300	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:

	2004 per annum	2003 per annum
Discount rate	5.0%	5.0%
Expected return on plan assets	5.0%	5.0%
Expected rate of salary increases	0%	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:

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

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

	2004 HK\$'000	2003 HK\$'000
At beginning of the year	4,452	4,241
Amounts (charged) credited to income	(542)	211
At end of the year	3,910	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>)	7,309	7,445
	Management fee income received (<i>note b</i>)	737	871
	Licence fee paid (<i>note c</i>)	–	314
	Balance due to the Wisdom Venture Group	1,545	1,127
Lee & Man Manufacturing	Management fee income received (<i>note b</i>)	269	77
	Balance due from Lee & Man Manufacturing	20	77
Lee & Man Paper Manufacturing Limited ("Lee & Man Paper Manufacturing")	Management fee income received (<i>note d</i>)	505	–
Lee & Man Realty Investment Limited ("Lee & Man Realty")	Licence fee paid (<i>note c</i>)	1,454	157
Subsidiaries of Fortune Star	Management fee income received (<i>note b</i>)	–	360
	Licence fee paid (<i>note c</i>)	–	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.

Financial Summary

	Year ended 31 March				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
RESULTS					
Turnover	599,007	693,921	703,791	919,261	955,750
Profit before taxation	92,610	85,898	85,913	128,299	112,920
Income tax expenses	(8,608)	(7,298)	(6,635)	(12,616)	(9,876)
Profit before minority interests	84,002	78,600	79,278	115,683	103,044
Minority interests	—	—	—	—	(883)
Profit attributable to shareholders	84,002	78,600	79,278	115,683	102,161
At 31 March					
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES					
Total assets	319,218	341,315	314,723	436,914	514,636
Total liabilities	(112,188)	(131,869)	(79,932)	(109,368)	(131,618)
Minority interests	—	—	—	—	(16,547)
Shareholders' funds	207,030	209,446	234,791	327,546	366,471