

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to the shareholders the annual report for Lee & Man Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st March 2001.

GROUP RESULTS

The Group recorded a turnover of approximately HK\$1,004 million (2000: HK\$923 million) and an audited consolidated profit attributable to shareholders to approximately HK\$122 million (2000: HK\$128 million).

DIVIDENDS

A final dividend of 7.0 Hong Kong cents per share has been recommended by the Board of Directors. Together with an interim dividend of 6.0 Hong Kong cents per share, the total dividend for the financial year is 13.0 Hong Kong cents per share (2000: HK\$13.0 Hong Kong cents).

The final dividend, if approved by the shareholders in the forthcoming Annual General Meeting to be held on 20th August 2001, is expected to be paid around 7th September 2001 to those shareholders whose names appear on the register of members on 20th August 2001.

BUSINESS REVIEW

Handbag Business

During the year under review, handbag business continued to be the largest business of the Group and was the major contributor to the Group's performance. Turnover rose by 15.5% to about HK\$694 million and accounted for 69.1% of the Group's total turnover. The operating profit decreased by 5.4% to about HK\$84 million.

Being one of the largest handbag manufacturers in Hong Kong, the Group has successfully built up its reputation in the worldwide handbag industry. 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 United States and the European markets accounted for 72.5% and 20.8% of the handbag business respectively. During the year, the Group has further enhanced its design and product development capabilities to produce more originally designed fashionable handbag products. The design and product development teams work closely with the customers to keep abreast of the latest market trends and new materials who are then fully supported by our extensive product development facilities located in the People's Republic of China (the "PRC"). The increase in originally designed fashionable products helps the Group to further increase the market share in its major markets. In line with the overall development of the Group's handbag business, the Group has upgraded and rebuilt certain production facilities of the Group's plants in the PRC aiming to produce high quality of handbags at a competitive price.

Chairman's Statement

BUSINESS REVIEW *(Continued)*

Handbag Business *(Continued)*

In the coming year, a possible slowdown of the United States and the European economy may restrict the growth of the turnover and profit of the handbag business. The Group will continue to monitor the situation carefully but up to now, we are not aware of any significant impact on our incoming orders. In the longer term, the Group is in a well position to capitalize on the business opportunities generated from the entry of the PRC into the World Trade Organization (“WTO”) leveraging on the Group’s competitive advantage in the handbag market. To achieve this, the Group is considering the possibility of a spin off of its handbag business to enhance the Group’s competitive edge in the handbag industry. As the intention of the re-structuring is at its preliminary stage, the plan may or may not proceed. If the plan proceeds, the Company will comply with all the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”).

Paper Packaging Business

The paper packaging business is the second largest business of the Group. It recorded a turnover of about HK\$218 million, representing a decrease of 10.1% as compared with the previous financial year, accounted for 21.7% of the Group’s total turnover. The operating profit recorded a decrease of 8.3% to about HK\$37 million.

In response to the decrease of the price of raw paper materials, the Group has adjusted its selling price downward resulting in a decrease in turnover during the year. However, the Group is able to maintain its profit contribution by raising its productivity through strategic alliance with a connected paper manufacturing company and by means of further cost rationalization. The entry of the PRC into WTO is expected to further stimulate growth and demand of paper products in the PRC. In response to this, the Group has ordered one advanced and highly automated heavy duty corrugator machine in December 2000. To further broaden and diversify the customer base across other provinces in the PRC, the Group has established a PRC foreign owned enterprise in Hainan to manufacture corrugated cardboard and corrugated packaging boxes to meet the domestic demand of the paper packaging products.

With a strong financial position and its competitive advantage in the market, the Group is in a well position to expand its paper packaging production capacity and to capitalize on the business opportunities that will be arisen from time to time.

Audio Cassette Business

During the year under review, turnover rose by 16% to HK\$92 million approximately, representing 9.2% of the Group’s total turnover. It contributed an operating profit of about HK\$7 million, which is similar to the previous financial year.

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BUSINESS REVIEW *(Continued)*

Audio Cassette Business *(Continued)*

As stated in the interim report for the six months ended 30th September 2000, the long established audio cassette business has obtained ISO9002 accreditation in July 2000 and also it successfully secured two more international brand name customers in August 2000. These two combined factors have enabled the business to generate more profit especially during the second half of the year.

Even though the audio cassette business is not the Group's largest income earner, it would continue to generate a stable and consistent profit contribution to the Group. Furthermore, the absence of the new entrants to the audio cassette business enables the Group to maintain a stable foothold in the industry.

PROSPECTS

Both the handbag and paper packaging business continued to provide a strong and stable contribution to the Group's financial performance. Although the possible slowdown of the United States and European economy in the coming year may restrict the growth of the Group's businesses, the directors are optimistic that the entry of the PRC into WTO will bring a larger room for development for the Group's businesses in the long run.

In order to enhance competitiveness with its own strength and to face every challenge positively for the continue growth in all its businesses, the Group is considering to re-structure its businesses aiming for more effective employment of resources. Barring any unforeseen circumstances, the Group is expected to achieve a satisfactory return to the shareholders.

APPRECIATION

On behalf of the Board, I would like to thank all of our customers, suppliers, my fellow directors and all the Group's staff for their loyalty, dedication, and contribution over the last year.

On behalf of the Board
LEE WAN KEUNG
Chairman

Hong Kong, 17th July 2001