

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to our shareholders our first set of published annual report for Lee & Man Handbag International Limited (the "Company") and its subsidiaries (the "Group") since the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by introduction on 16 January 2002.

RESULTS AND DIVIDENDS

Pursuant to a group reorganisation and the basis of preparation for the accounts as set out in note 1 to the financial statements, consolidated turnover increased moderately by 1.4% to HK\$703.8 million and the profit attributable to shareholders was HK\$79.1 million for the full year, which was at approximately the same level as compared with previous financial year.

The subsidiaries of the Company had already paid approximately HK\$91 million to their former shareholders in the current year prior to the group reorganisation and the Company only became the holding company of the Group on 14 December 2001, the directors resolved not to recommend the payment of any final dividend for the year under review.

BUSINESS REVIEW

The business has performed similar to the previous year. For the year ended 31 March 2002, the Group increased its turnover and maintained its profit level as compared with 2001. Given the current stagnant market conditions, the Group considered this performance is satisfactory.

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. Due mainly to the increased demand from our customers in the European market, the Group continued to achieve a steady growth in turnover during the year under review. This reflects the Group's marketing efforts to diversify the customer base in our major geographical markets. Meanwhile, the Group was able to maintain a steady sales revenue in the U.S. market. Moreover, over the past few months, consumer spending in the United States has generally held up remarkably well and we are seeing particularly positive signals in terms of the orders from our customers.

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 continuous improvement efforts by the management at the production plants. As China has emerged a 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 competitively-priced products to our global customers. We will continue to upgrade our production facilities and to improve our management system so as to maintain our competitive advantages.

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Our increased strength in the design and product development capabilities to produce more originally designed fashionable handbag products enable us to attract more and more multi-national retailers to become our business partners and to increase our market share in the global handbag industry. We will continue to keep abreast of the latest market trends and new materials for the production of the fashionable handbag products.

Staff

For the year ended 31 March 2002, the Group's operations had a workforce of more than 5,000 people. The Group maintains a good relationship with its employees and provide them with proper training, 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 is in a well position to increase its market share and to maintain its performance in the foreseeable future. The orders from our customers so far appear quite encouraging. On this basis, the directors are optimistic that the Group's business will not be adversely affected by the downturn of the global economy.

We will continue to process a strong competitive position in the market place. Barring any unforeseeable circumstances, the Group is expected to achieve a satisfactory return to the shareholders.

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
LEE WAN KEUNG
Chairman

Hong Kong, 22 July 2002