

Directors' Report

The directors have pleasure in presenting their first report and the audited financial statements for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 28 to the financial statements.

ARTICLES OF ASSOCIATION

By a special resolution in writing of the then sole shareholder of the Company dated 14 December 2001, the Company adopted a new set of Articles of Association.

REORGANISATION AND LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

The Company was incorporated in the Cayman Islands on 27 July 2001 as an exempted company under the Companies Law (Revised) Chapter 22 of the Cayman Islands. Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 14 December 2001. Details of the group reorganisation are set out in the paragraphs headed “Corporate Reorganisation” in appendix V of the introduction document issued by the Company dated 21 December 2001. The shares of the Company were listed on the Stock Exchange by introduction on 16 January 2002.

The group reorganisation has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for these financial statements is set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 19.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 18 to the financial statements.

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SHARE OPTIONS

- (a) 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").

Options granted must be taken up within 21 days of the date of grant. The maximum number of the 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 the 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 (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 higher 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 five business days immediately preceding the date of the grant of the options.

Since its adoption up to 31 March 2002, no option was granted by the Company under the Scheme.

- (b) The share option scheme of the Company's fellow subsidiary at 31 March 2002, Lee & Man Holdings Limited ("Lee & Man Holdings") (the "Lee & Man Holdings Scheme"), was adopted pursuant to a resolution passed on 12 May 1997 for recognition of past services contributed by the eligible directors and employees, and will expire on 11 May 2007. Under the Lee & Man Holdings Scheme, the Board of Directors of Lee & Man Holdings may at their discretion grant options to executive directors and employees of Lee & Man Holdings and its subsidiaries, to subscribe for shares in Lee & Man Holdings.

The maximum number of shares in respect of which options may be granted under the Lee & Man Holdings Scheme is not permitted to exceed 10% of the issued share capital of Lee & Man Holdings at any point in time. The number of shares in respect of which options may be granted to any individual at the grant date is not permitted to exceed 25% of the number of shares issued and issuable under the Lee & Man Holdings Scheme.

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Options granted must be taken up within 21 days of the date of grant. No consideration is payable on the grant of an option. Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of Lee & Man Holdings may at their discretion determine the specific exercise period. The exercise price is determined by the Board of Directors of Lee & Man Holdings and will not be less than the higher of the nominal value of the shares of Lee & Man Holdings and 80% of the average closing price of the shares for the five trading days immediately preceding the date of grant.

At 31 March 2002, no option was granted by Lee & Man Holdings and outstanding under the Lee & Man Holdings Scheme.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in note 20 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$7.5 million for the purpose of expanding its business. In addition, the Group revalued its property, plant and equipment at 31 March 2002. 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 AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors

Lee Wan Keung (Chairman)	(appointed on 22 August 2001)
Wai Siu Kee (Managing Director)	(appointed on 22 August 2001)
Poon Lai Ming	(appointed on 22 August 2001)
Ng Yu Hung	(appointed on 22 August 2001)
Lee Marina Man Wai	(appointed on 22 August 2001)
Hui Yick Kwan, Tony	(appointed on 22 August 2001)

Independent non-executive directors

Wong Kai Tung, Tony	(appointed on 12 December 2001)
Heng Kwo Seng	(appointed on 12 December 2001)
Lee Ming Cheong, Alfred	(appointed on 12 December 2001)
Wan Chi Keung, Aaron	(appointed on 12 December 2001)

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In accordance with Article 87 of the Company's Articles of Association, Lee Marina Man Wai and Hui Yick Kwan, Tony 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' INTERESTS IN SECURITIES

As at 31 March 2002, 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 Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or as notified to the Company were as follows:

(a) Interests in the Company:

Name of director	Number of ordinary shares in the Company held			
	Personal interest	Family interest	Corporate interest	Other interest
Lee Wan Keung	—	—	—	609,750,000 (Note)
Wai Siu Kee	—	—	—	609,750,000 (Note)
Poon Lai Ming	1,000,000	—	—	—
Ng Yu Hung	—	—	—	—
Lee Marina Man Wai	—	—	—	—
Hui Yick Kwan, Tony	—	—	—	—
Wong Kai Tung, Tony	—	—	—	—
Heng Kwoong Seng	—	—	—	—
Lee Ming Cheong, Alfred	—	—	—	—
Wan Chi Keung, Aaron	—	—	—	—

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(b) Interests in an associated corporation:

Name of director	Number of ordinary shares in Lee & Man Holdings held			
	Personal interest	Family interest	Corporate interest	Other interest
Lee Wan Keung	–	–	–	609,750,000 (Note)
Wai Siu Kee	–	–	–	609,750,000 (Note)
Wong Kai Tung, Tony	–	–	–	–
Heng Kwo Seng	–	–	–	–

Note: 609,750,000 ordinary shares in the Company and Lee & Man Holdings 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 Mr. Lee Wan Keung and certain of his family members and Ms. Wai Siu Kee.

Save as disclosed above and other than certain nominee shares in the subsidiaries held by Mr. Lee Wan Keung in trust for the Group, 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 2002 as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share options", 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 2002, 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.

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CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 27 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 60% 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Company was listed on the Stock Exchange.

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 was in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules since it was listed on the Stock Exchange.

AUDITORS

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

On behalf of the Board
LEE WAN KEUNG
Chairman

Hong Kong, 22 July 2002